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REVIEW OF THE COMMODITY SITUATION AND OUTLOOK

Commodity situation and outlook 1990

Report by the UNCTAD secretariat

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CONTENTS

Chapter		Paragraphs
	Preface	(i) - (ii)
I.	Summary and conclusions	1 - 17
II.	Main recent developments in commodity trade, particularly of developing countries	18 - 44
	A. A brief overview of 1989	19 - 20
	B. Short-term outlook for commodities	21 - 24
	C. Main developments in commodity trade in 1987 and 1988	25 - 44
	1. Basic foods	31 - 32
	2. Tropical beverages	33 - 36
	3. Vegetable oilseeds and oils	37 - 38
	4. Agricultural raw materials	39 - 40
	5. Metals and minerals	41 - 44
III.	Commodity supply and demand	45 - 97
	A. Changing structure of world commodity trade	45 - 72
	1. Declining importance of commodities in world trade	45 - 53
	2. Changing structure of developing countries' commodity trade	54 - 72
	B. Instability in export earnings, and the finance provided	73 - 75
	C. Economic conditions affecting the supply of commodities	76 - 84
	1. Responsiveness of supply to world price signals	76 - 80
	2. Responsiveness of supply to major trade policy changes in indebted developing countries	81
	3. Recent changes in developed countries' policies in respect of commodity production	82 - 84
	D. Factors affecting the demand for commodities	85 - 97
	1. Declining raw material intensity of industry	86
	2. Economic growth and commodity consumption	87 - 88
	3. Recent trend in import demand growth	89 - 91
	4. The demand for food and changes in the age pattern of population	92 - 93
	5. The weak link between world market prices and domestic prices	94 - 97

Annex

Disposal of non-commercial stocks.

Preface

(i) This report reviews the commodity situation and outlook. It describes the changing direction and patterns of trade in commodities and presents briefly the findings of analyses*/ conducted on several other issues, namely the responsiveness of commodity supply to world price signals, economic and financial constraints, including debt pressure, and adjustment policies; recent changes in developed countries' policies in respect of commodity production; and factors affecting the demand for commodities; these are issues on which the Committee on Commodities, at its thirteenth session, agreed to focus in its future reviews (agreed conclusion 25(XIII)). It also reviews the shortfalls in commodity export earnings and compensatory finance made available,pursuant to decision 379(S-XVI) of the Trade and Development Board at its sixteenth special session.

(ii) This report, given the size limitation for documentation, should be read in conjunction with Part I, Chapter I, Section B.3 of the Trade and Development Report 1990, which contains an overview of commodity prices in 1989 and the first quarter of 1990, as well as the report prepared by the UNCTAD secretariat for the forty-fifth session of the General Assembly, which contains a comprehensive discussion of changes in world commodity trade patterns.

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*/ These analyses will be issued in due course as non-sessional documents.

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Chapter I

SUMMARY AND CONCLUSIONS

1. This review of the commodity situation and outlook confirms the coutinuing importance of commodity exports for the majority of developing countries. It also confirms the continuing existence of many "traditional" commodity problems, as well as the emergence of various "new" commodity concerns which give a different twist to some of the "traditional" problems. The analysis of export performance highlights the dangers of generalizations and the difficulty of replicating "success stories".

2. The "traditional problems" of price and export earnings instability continue, aggravated by the generally low levels of prices by historical standards. Although the degree of instability of prices has been somewhat lower since 1982 then earlier, it still provides a large degree of uncertainty concerning export earnings, which are also affected by variations in output. This causes serious difficulties in implementing long-term development or adjustment programmes.

3. Most developing countries continue their traditional role of exporting commodities in their raw forms. The shift towards exporting in processed and manufactured forms, while significant has been confined to a handful of developing countries. Some developing countries exporting processed commodities do not produce the raw forms.

4. Another "traditional" problem which persists, although in a somewhat modified form, is the decelerating demand for natural raw materials over the long term. Substitution between natural products and synthetics or among natural products continues under the impact of innovations in the science of materials. Over time, however, the relationship between economic growth and commodity demand has become more complex and there is reason to believe that the consumption of natural raw materials per unit of output is unlikely to dwindle as fast as contemplated a few years ago. The consumption of natural raw materials will continue to vary with the level of industrial activity, particularly in the capital goods industry in the case of metals and minerals.

5. In addition to substitution among inputs and changes in industrial structure, demand in the developed countries is increasingly influenced by a multitude of factors such as fashions, the age structure of population, and health or environmental concerns and regulations, as well as economic and trade policies which affect the location of agricultural of industrial production. Demand by developing countries for both foodstuffs and raw materials is much more closely linked to their economic growth. In fact the developing countries' importance as import centres for commodities has radically increased.

6. Just to respond passively to the traditional problem of decelerating demand is an inadequate strategy. Substitution among materials is determined by the inherent characteristics of the competing materials and their prices. The characteristics of many commodities may be improved or new uses may be created through research and development activities. Thus commodity producers have an alternative which may be rather costly but worthwhile for many commodities, and that is to affect the demand for their products through research and development or promotion activities. A new element in this

respect is the increasing environmental consciousness in the main consuming countries which, if capitalised upon correctly, may provide a welcome boost to the demand for natural products. Research to improve the environmentally friendly characteristics of natural products and the technologies to process them is a crucial activity.

7. Occasional over-supplies of commodities on world markets have always occurred. For many countries, debt pressure spurred exports in the 1980s. A new concern in the field of commodities is the tendency towards over-supply on a prolonged basis. Increased use of high-yielding varieties and productivity increases as a result of improved production techniques have become a major feature of the commodity sector. Advances in biotechnologies and genetic engineering in the agricultural sector have enabled producers, particularly new entrants, to attain high yields and relatively low costs of production. Since the traditional suppliers find it difficult to diversify, the pressure to produce more of their traditional crops exacerbates the oversupply situation, prices fall further and even new entrants can find their costs of production barely covered. In the minerals sector, a similar phenomenon occurs when a new low-cost mine is discovered or new techniques are adapted at old mines. In both agriculture and mining, the tendency to oversupply leads to the benefits of increased efficiency being transferred largely to the consumers or to the traders rather than being retained by the producers. Biotechnologies and genetic engineering also create a further concern for developing countries, since they open up possibilities for producing tropical crops in temperate climates. This may, in the long run, reduce or effectively eliminate the importance of the tropical climate factor in obtaining certain flavours, for example in cocoa and coffee. Developing countries would be less vulnerable to these developments and could possibly be beneficiaries, if they could have a more direct influence on research and its priorities and develop their own research capacities.

8. Agricultural production and trade policies of developed countries involving high levels of support for domestic producers have also exacerbated surpluses in competing exports from developing countries. A consequence has been to limit market opportunities for developing exporters in both developed countries and third country markets. Moreover, food production for domestic consumption has been discouraged by the availability of cheap imports in many developing countries. Nevertheless, the availability of cheap food imports has had beneficial effects in terms of foreign exchange expenditures in developing countries which are and will be food-deficient for structural reasons. The support policies had two important effects in the developed countries where they were implemented. Firstly, they caused a considerable budgetary burden and a large transfer of resources from consumers to farmers. Secondly, they had environmentally detrimental consequences with respect to land and water resources. For both of these reasons, there are signs that the policies leading to current high levels of production, in particular of foodstuffs, may be changing. Some of these policies may be severly modified or even discontinued in the foreseeable future. Both potential exporters and current importers of these commodities have to be extremely vigilant concerning the positive and negative effects of this eventuality, which will have a profound importance on world trade patterns. In this respect, environmental standards and regulations being adopted in developed countries that may limit the use of certain inputs in agriculture and mining, restrict the emission of pollutants in processing industries and curtail certain mining

practices are likely to have both positive and negative effects on the commodity sector in developing countries. Export opportunities may open up for developing countries as production declines in the industrialized countries.

9. The pattern of commodity trade has been shifting, with developing countries becoming more significant importers. This trend is likely to continue, given the unfulfilled potential for food consumption and expanding industrialization in these countries . Budgetary considerations and adjustment policies, however, act as a constraint on the expansion of food consumption in many countries where food subsidies have been removed and social expenditures curtailed. Although such policies may lead to greater food self-sufficiency, demand for food imports by developing countries is likely to grow substantially. This provides new opportunities for food-exporting developing countries, emphasises the importance of regional co-operation and brings a new dimension to the traditional problem of weak marketing services in developing countries and the issue of improvements to world marketing systems. It has been observed in recent years that countries such as Brazil and Malaysia which have been particulatly successful in commodity exports have emphasised the South-South dimension of their marketing services.

10. A more immediate concern is the impact on commodities trade of the changes taking place in Eastern Europe. Although it is impossible to forecast with certainty what this impact will be, some observations on the current situation and a brief assessment of expected developments may shed some light on the positive and negative implications for developing countries.

11. The first observation is that, except for iron ore, per capita consumption levels for major commodities in Eastern Europe are generally lower than in the West. Secondly, whenever feasible the needs of Eastern European countries were met by supplies from within the region or from a small number of countries which have special trading relations with them, irrespective of price considerations. Thirdly, the industries processing raw materials are often inefficient, wasteful and polluting.

12. Regarding the first observation, per capita consumption can be expected to increase with economic growth. Economic growth, however, is likely to stagnate for a few years before picking up. Thus, demand for commodities, in particular raw materials, could also stagnate before accelerating. Imports of some items comsumed directly and for which the demand has been heavily curtailed, such as fruits, vegetables, coffee and cocoa, could rise in the short run.

13. Secondly, as market mechanisms are adopted, industries in Eastern Europe will tend to purchase raw materials from the cheapest suppliers and a consequence could well be an increased share for developing countries. The adoption of market mechanisms may have a further impact on commodity demand if it leads to an expansion of industrial investments.

14. While these two developments are likely to have a positive impact on the commodity exporting developing countries, the implications of the third observation could point in the opposite direction. As plants become more efficient the aggregate demand for raw materials could decline. The closing

down of some plants due to environmental concerns could also reduce the demand for raw materials but may increase the possibility for trade in processed products.

15. Three other considerations have to be added on the issue of Eastern Europe. Firstly, concerning commodities exported by both developed and developing countries, if other developed country governments continue to provide incentives or provide tied aid, this will favour imports by Eastern Europe from the developed countries rather than from developing suppliers, which will be considerably disadvantaged. Secondly, whilst developing countries should try to expand their trade with Eastern Europe the size of this opportunity should not be exaggerated. The countries of Eastern Europe presently account for less than 7 per cent of world commodity imports and absorb a slightly larger share of developing countries' commodity exports. Finally, increased efficiency in the commodity sector of Eastern European countries may well increase the competition faced by other commodity exporters in global markets for some commodities such as nickel, phosphates and vegetable oils.

16. For many developing countries the resources needed for development have to be generated by the commodity sector. The key issue is how to maximize the contribution of the commodity sector to economic growth and transformation in commodity-dependent developing countries. It is important to ensure that developments in the commodity sector contribute effectively to generating development elsewhere in the economy, as well as to reducing poverty. In this respect the backward and forward linkage between the commodity sector and the national economy needs to be strengthened in many developing countries. The potential offered by an expansion of domestic demand for agricultural products and its implications for small farmers also deserves utmost attention.

17. Given the increasing complexities of the world economy and the observations made above, the following aspects of development policies are crucial: (1) a clear assessment of both agricultural and mineral potentials and the integration of the commodity sector into the overall development strategy; (2) a better understanding of industry and market structures and marketing systems at both national and international levels; (3) increased access to finance and technologies; (4) an environment of institutions, infrastructure, support services and macroeconomic policy which is conducive to development; and (5) the elaboration and implementation of diversification programmes including for increased food self-sufficiency. A supportive international economic environment, including better functioning commodity markets, as well as stable and more predictable conditions in commodity trade, is also indispensible. It is within this national and international framework that the potential of the commodity sector can be realized and the beneficial effects of solving traditional problems and dealing with new concerns can be achieved.

Chapter II

MAIN RECENT DEVELOPMENTS IN COMMODITY TRADE, PARTICULARLY OF DEVELOPING COUNTRIES

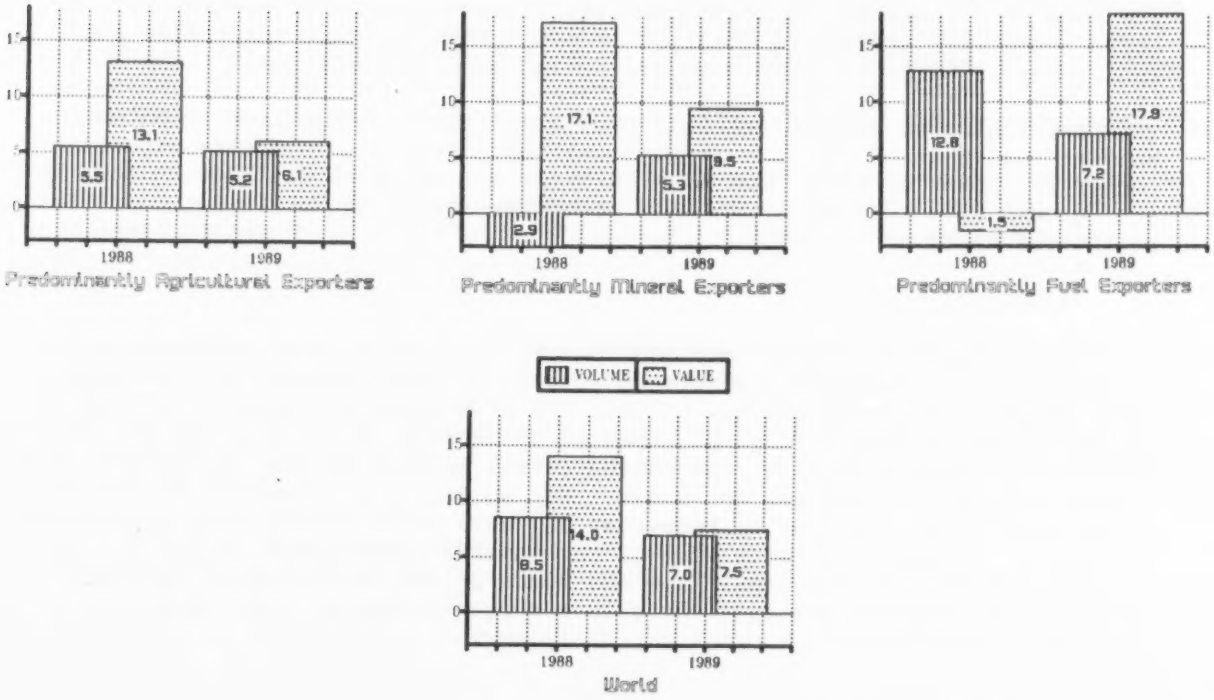
18. Only limited information is available regarding export earnings in 1989 and data concerning commodity trade are incomplete. Accordingly, in this section, after a brief overview of world trade in 1989, discussion will focus on 1987 and 1988, the two years which follow the period covered in the Commodity Review and Outlook of 1988.

A. A brief overview of 1989

19. In 1989, world merchandise trade increased by 7.5 per cent and reached a record level of $US 3.1 trillion. In volume terms the rate of increase was 7 per cent. In both cases however, there was a slowing down compared to 1988, when growth was 14 per cent in terms of value and 8.5 per cent in terms of volume.

Figure 1

Export growth: world and predominantly commodity exporting developing countries, 1988 and 1989
(Per cent over previous year)



Source: Developing countries - IMF, World Economic Outlook, May 1990, Washington, DC.
World GATT, International Trade 1989-90

20. As seen in figure 1, export earnings of non-fuel commodity exporting developing countries followed a similar trend. There was an increase over 1988 but the rate of growth declined from 17.1 per cent to 9.5 per cent for predominantly mineral exporters. In the case of the latter group, this took place despite an expansion in the volume of exports, which had fallen the previous year. Moreover, in terms of both volumes and values, the rates of export growth for countries exporting predominantly commodities remained substantially below those for countries exporting predominantly manufactured goods.

B. Short-term outlook for commodities

(i) Demand

21. The slowdown in the economies of industrialized countries which started in 1989 is continuing in 1990. It is unlikely that the relatively rapid economic growth of 1987-1989 will be achieved in 1991. In consequence the demand for industrial raw materials is expected to be less buoyant.

22. Economic adjustment in Eastern Europe other than the German Democratic Republic could reduce demand for industrial raw materials by that region, at least in the short term. The demand for basic foods and tropical beverages seems likely to increase in response to the presently unfulfilled consumer demand. German unification, on the other hand, is likely to boost demand for raw materials in the short term as a result of new investments in the Eastern part. In Japan, while a slower rate of economic growth may reduce commodity demand, an expansion of public investment and a more liberalized import regime for some food items may increase imports. Trade policies of major actors in world trade will affect the location of production for many industries and thus trade patterns for both commodities and manufactured goods.

23. Developing countries' economic growth is likely to continue to be more buoyant than that of the industrial countries. From the commodity-exporting countries' point of view, however, the important issue is the slowing down in the growth rate in some of the main commodity-importing developing countries of the Far East.

(ii) Supply

24. While demand will grow only moderately, increase in supplies is expected to aggravate the downward pressure on prices for most commodities. Despite a long period of historically low prices, the production of commodities such as cocoa, coffee or palm oil is not expected to decline in the near future and may well increase further. Increasing cereal production may ease prices, but stocks are low, as they are for sugar. For agricultural commodities, weather conditions in major producing countries may well cause disruptions to supplies and result in temporary price rises. For mineral commodities stock/consumption ratios remain low and hence prices in the short term are likely to be volatile wherever there is a surge in demand, even of a relatively small nature.

C. Main developments in commodity trade in 1987 and 1988

25. During both 1987 and 1988 export earnings of developing countries from commodities[1/] increased over the previous year, in terms of both current and constant dollars. In both years, however, the growth rate in earnings was lower for developing countries than for the rest of the world, despite a faster rate of increase in the volume of their commodity exports. This was caused by relative price movements. In 1987, prices for tropical beverages plummetted, sharply reducing export earnings of developing countries from this commodity group. In 1988, there was a sharp rise in the prices for basic foods which are mostly exported by developed countries and which have a bigger weight in their export basket.

26. Continued growth in volumes was a marked feature of developing countries' commodity exports during 1987 and 1988. In 1987, for developing countries as a whole, the volume index of exports for each of the main commodity groups reached its highest level ever and continued to rise in 1988 for all groups except tropical beverages. The latter group contracted, in particular on account of reduced shipments of coffee caused by adverse weather conditions in Brazil and Colombia.

27. In terms of values however, only one peak was reached in 1987 and that was for basic foods. In 1988, export earnings from basic foods expanded further, and that from agricultural raw materials also surpassed all previous years. Developing countries' aggregate export earnings from all commodities reached $US 120 billion which was the highest ever attained in nominal terms. When account is taken of inflation, however, and export earnings are expressed in real terms, 1988 is no longer a year of record earnings. For example when these earnings are deflated by the unit value index of manufactured goods exported by industrialized countries, commodity export earnings of developing countries for 1988 are the second lowest over the last 10 years. This highlights the generally low level of commodity prices by historical standards.

28. The export performance of the various developing regions during these two years is summarized in table 1 where each cross refers to a peak for the relevant variable. For example, Latin America's export volume index for metals and minerals reached a peak in 1987 and then again in 1988 while the region's export earnings from metals and minerals peaked only in 1988.

29. The table shows that the Asian region has been particularly successful in expanding the quantities of its commodity exports as well as its earnings not only over the long term as discussed later in this report, but also in each of the two years under consideration.[2/] For Africa, on the other hand, the exports of no commodity group reached a peak in terms of quantitites in either of the two years.

30. Figure 2 shows the growth rate for export earnings and import expenditures of developing countries by commodity group in 1987 and 1988.

Table 1

Peaks reached by regions in exports of main commodity groups in 1987 and 1988 in terms of values and quantities.

		Total commodities		Basic foods		Tropical beverages		Vegetable oilseed & oils		Agricultural raw materials		Metals and minerals	
		Q	V	Q	V	Q	V	Q	V	Q	V	Q	V
Africa	1987				+								
	1988				+								
Latin America	1987											+	
	1988		+	+	+							+	+
Asia	1987	+	+	+	+					+			
	1988	+	+	+	+	+	+			+	+		

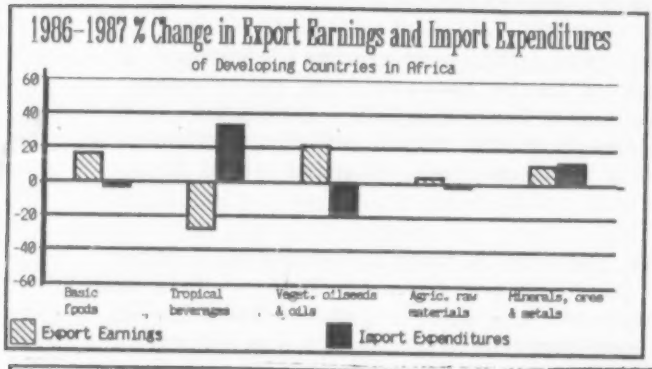
Q = Quantity
V = Value

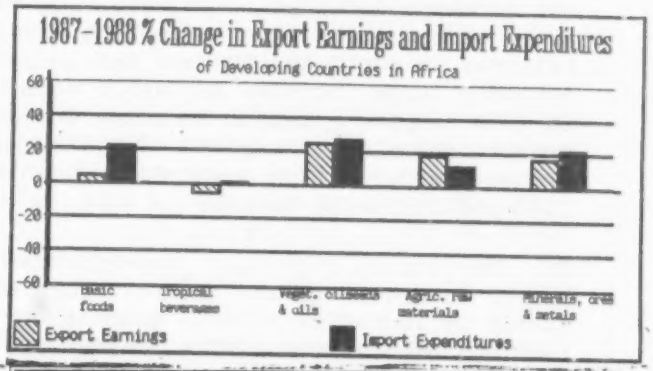
Source: UNCTAD, Commodity Yearbook, 1990 (forthcoming).

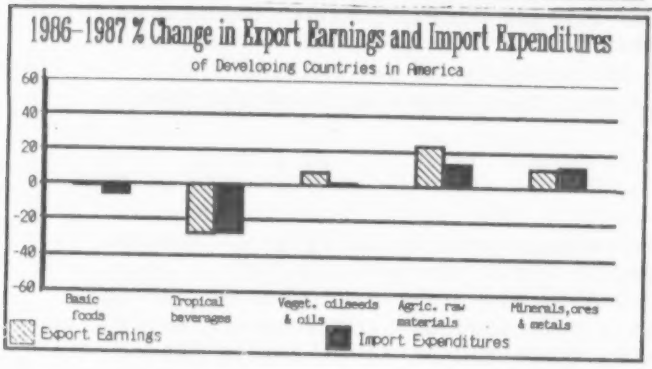
30. Figure 2 shows the growth rates for export earnings and import expenditures of developing countries by commodity group in 1987 and 1988.

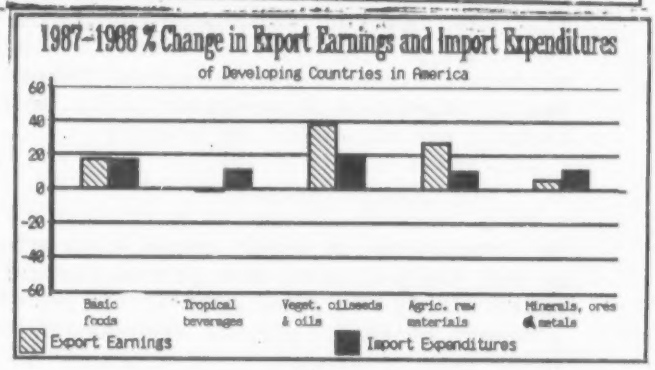
Figure 2

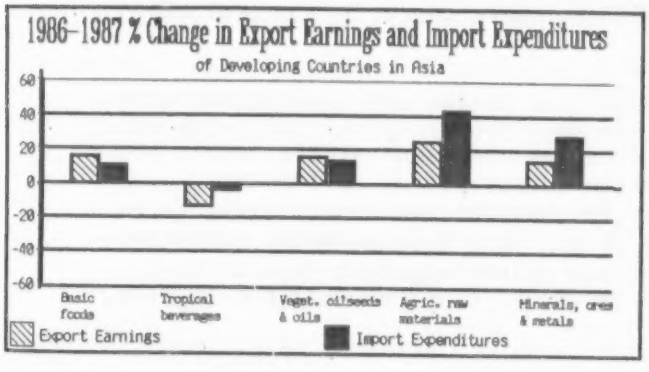
Changes in export earnings and import expenditures by main commodity groups for developing regions
(1987 and 1988)

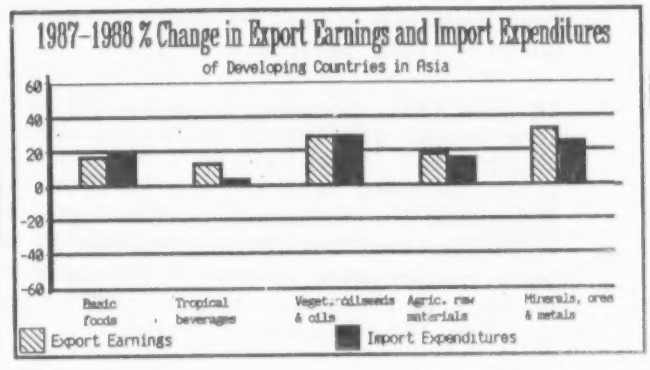












Source: UNCTAD Commodity Yearbook, 1990 (forthcoming).

1. Basic foods

31. Export earnings of developing countries from basic foods expanded in both years. The steady increase in Asian earnings is dominated by its fish exports. Latin America's earnings, however, are much influenced by what happened to sugar and to some extent to cereals. In 1987 its export quantities and earnings declined. In 1988, for cereals and particularly sugar, there was a strong price rise reflecting severe drought, as well as production failures in North America and declining stocks. This was the main factor behind a large increase in export earnings of Latin America from basic foods in 1988 despite a meager increase in the quantities exported. Owing to exceptionally large exports of coarse grains from the Sudan and favourable prices, earnings from basic foods in Africa rose to their highest level in 1987 and increased further in 1988.

32. Developing countries' expenditures on imports of basic foodstuffs, after a year of modest growth in 1987, rose by about 20 per cent in 1988. This was caused by increases in both quantities imported and prices paid. The rise in 1988 was highest for Africa, reaching 30 per cent in the case of cereals. This was, however, concentrated in the two largest African cereal importers, namely Egypt and Algeria, where food production declined in 1988. Their aggregate expenditures on cereal imports increased by 50 per cent in that year. Vegetable oilseeds and oils, which comprise a major part of the food basket, are discussed separately.

2. Tropical beverages

33. The value of world trade in tropical beverages was critically influenced by the sharp drop in the prices for coffee in 1987. The decline was particularly sharp because of the exceptionally high levels reached in 1986 as a result of the Brazilian drought of 1985. Nevertheless, the drop was so large that it brought coffee prices down to their lowest level for 10 years. Cocoa prices also fell as supplies continued to increase more than demand. Tea trade was fueled by demand from Eastern European countries in 1987 and North African importers in 1988.

34. In 1987, because of declining earnings from coffee and to a lesser extent from cocoa, developing countries export earnings from tropical beverages were 25 per cent lower than in 1986. The decline was much sharper for countries which had been able to benefit from the high coffee prices of 1986 by expanding the volume of coffee exported. In 1987, coffee export earnings fell by 50 per cent for Kenya, between 45 and 50 per cent for Colombia, Zaire and Peru, and between 35 and 45 per cent for most other important exporters, causing declines not only in their export revenues from tropical beverages but in their total export earnings.

35. In 1988 export earnings from coffee rose somewhat, but those from cocoa continued to decline at an increasingly rapid pace. Although quantities of overall cocoa exports continued to rise, mainly as a result of expanding exports from Malaysia, export earnings of developing countries as a whole declined by about 13 per cent and those of Côte d'Ivoire and Ghana by almost 30 per cent. Malaysia's earnings, however, increased by 28 per cent in response to a quantity increase of 43 per cent.

36. Behind the fall in Côte d'Ivoire's cocoa exports in 1987 and 1988 was its decision to deliberately withdraw from exporting in 1987 in order to counteract falling world market prices. This meant only sporadic selling through 1988, barely covering commitments and some outstanding contracts agreed before that date. Côte d'Ivoire also decided to abandon its objective of increasing cocoa production to one million tons by 1990 and to diversify instead into other agricultural products.

3. Vegetable oilseeds and oils

37. Prices for vegetable oils and oilseeds rose steeply in 1988 owing to the North American drought, which damaged the United States soybean crop. There was a decline in export volumes of the United States. This benefitted other exporters, including developing countries, which were able to increase the quantities they exported. Although this increase was modest, their earnings increased by almost one third over 1987 levels.

38. There was also a steep rise in expenditures by importers of vegetable oilseeds and oils. The proportional increase for developing countries was much more than that for developed countries as the latter cut down the quantity of their imports considerably more than the former.

4. Agricultural raw materials

39. Developing countries' export earnings from agricultural raw materials grew steadily and strongly in 1987 and 1988. The weak performance of the African region in 1987, basically due to a decline in export earnings from cotton, in particular from Egypt, was the only exception. In 1987 growth of export earnings from agricultural raw materials was relatively higher for Asia, and strong demand for rubber and tropical timber were important factors in this expansion. In 1988 the rate of growth was higher for Latin America, partly spurred by the increase in cotton exports, in particular from Paraguay and Argentina. Timber demand, which was important in 1987, tapered off as the construction boom slowed down, particularly in Japan.

40. Expenditures on imports by developing countries of agricultural raw materials increased rapidly in 1987, mainly as a result of very large increases in quantities imported by developing countries in South and South-East Asia. Expenditures on cotton imports by Hong Kong, the Republic of Korea, China, Taiwan Province of China, Thailand and Indonesia as well as expenditures on timber imports by the first three and Singapore increased in each case by 40 to 60 per cent over the previous year. In 1988, as economic growth of the region slowed down, aggregate import expenditures on agricultural raw materials also rose more slowly.

5. Metals and minerals

41. The price index for minerals, ores and metals, which had been on a generally declining trend in both current dollars and in real terms for the preceeding six years, embarked upon a remarkable upsurge, starting in the second half of 1987. The price rise, which was enjoyed by most minerals and metals with the exception of iron ore, continued through 1988 due to a tight supply situation facing strong demand. Developing countries' export earnings went up by 13 and 16 per cent in 1987 and 1988 respectively, with only marginal increases in exported quantities.

42. Considering that the 1988 price index for metals and minerals exported by developing countries rose by 45 per cent, one could expect developing countries' export earnings from these commodities to go up by more than 16 per cent. This did not occur, partly because a substantial part of world trade in metals and minerals takes place under contractual conditions where market prices are not used or are reflected only with a time lag. It is also interesting to note that in 1988, while the quantity of metals and minerals exported by industrialized countries fell by more than 20 per cent, their export earnings increased by almost 60 per cent. The much higher increase in prices for commodities such as zinc, nickel and manganese, which have a larger weight in the metals and minerals export basket of developed countries, partly accounts for this divergence between developed and developing countries.

43. Among developing regions, in both 1987 and 1988 the largest increase in export earnings from metals and minerals was for Asian countries and the smallest was for Latin American countries, particularly in 1988. Large increases in export earnings from copper for the Philippines and Indonesia and export problems in Chile and Peru contributed to this.

44. In spite of the steeper increase in prices in 1988 than in 1987, aggregate expenditures by developing countries which are principal importers of metals and minerals did not increase more rapidly in 1988 than in 1987. The main reason was a sharp reduction in the quantity of imports by the Republic of Korea due to a slowdown in industrial production.

Chapter III

COMMODITY SUPPLY AND DEMAND

A. Changing structure of world commodity trade

1. Declining importance of commodities in world trade

45. The share of non-fuel commodities (from now on commodities) in world trade has been declining. The value of world commodity exports went up from about $US 100 billion in the beginning of the 1970s to around $US 450 billion at the end of the 1980s, but their share in total trade fell from about one third to about one-fifth.3/ Divergent developments in trade volumes and changes in relative prices have both contributed to the emergence of this situation.

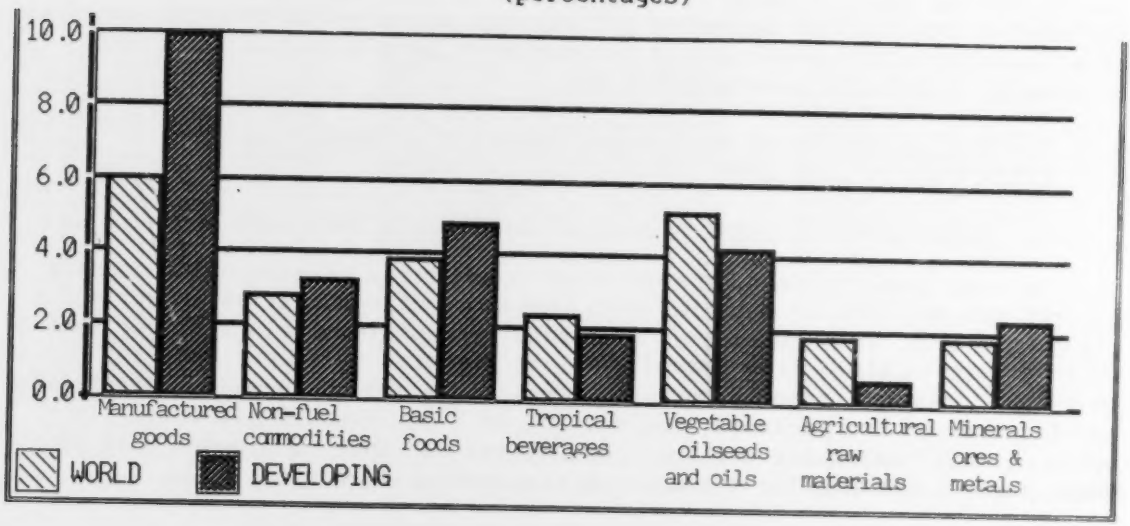
46. Measured in constant prices as a proxy for volumes, international trade in manufactured goods grew at an average annual rate of close to 6 per cent between 1970-1972 and 1986-1988.4/ In the same period, commodity trade grew at a little more than half that rate. In terms of price, between 1970-1972 and 1986-1988, manufactured goods increased by more than three times, whereas commodities rose only 2.5 times.

47. Figure 3 reveals the rapid growth of manufactured exports and highlights the divergent rates of growth among subgroups of commodities.

48. One could have expected the higher growth rate for trade in manufactured goods to be reflected in trade of raw materials. However, trade in agricultural raw materials, as well as minerals, ores and metals, grew the slowest among all commodity groups. Several factors are responsible for this.

Figure 3

Annual average growth rates of exports in real prices
(1970-1972 to 1986-1988)
(percentages)



Source: UNCTAD secretariat calculations.

49. Over the years, technological change has reduced the raw material intensity of the manufacturing sector, particularly in industrialized countries. Meanwhile local processing of various raw materials in developing countries has expanded. Thus commodities such as cotton, timber, phosphate and iron ore increasingly enter world trade after being transformed in the producing countries and are classified as manufactures.

50. Although the income elasticity of demand is low for foodstuffs, the growth of international trade in basic foods and in vegetable oilseeds and oils has been the fastest among commodities, approaching that of manufactured goods. The main reason has been expanding demand in developing countries. For both basic foods and vegetable oilseeds and oils, the stagnation of production accompanied by the population boom in Africa, as well as the expansion of food import demand in petroleum-exporting countries, have been important elements. For vegetable oils in particular, a large expansion in imports of animal feed by developed countries has also contributed significantly to the growth of international trade.

51. Policies of industrialized countries have favoured the expansion of trade in manufactured goods rather than in commodities. The gradual liberalization of world trade in manufactured goods through the various GATT rounds, without a similar liberalization for agricultural commodities, has been a significant factor. In fact, agricultural trade of industrialized countries has been increasingly protected and supported and has led to a displacement of exports from other sources rather than to the creation of new trade opportunities.

52. Regional trading arrangements have also concentrated on an expansion of trade in manufactured goods, taking into account the scope for complementarities and product differentiation in them.

53. The price decline of commodities relative to manufactures can be attributed in part to surplus production caused by agricultural support policies in industrialized countries and in part to the rapid increase in agricultural yields. Recently, yields have increased substantially for export crops of developing countries such as sugar, tea and cocoa, particularly in new entrant countries. These increases in yields, first through the green revolution and later through cloning and use of hybrids, have contributed to increasing supplies and depressed prices. In such a situation, the benefits of productivity improvements seem to have been largely passed on to the consumers, traders or manufacturers.5/

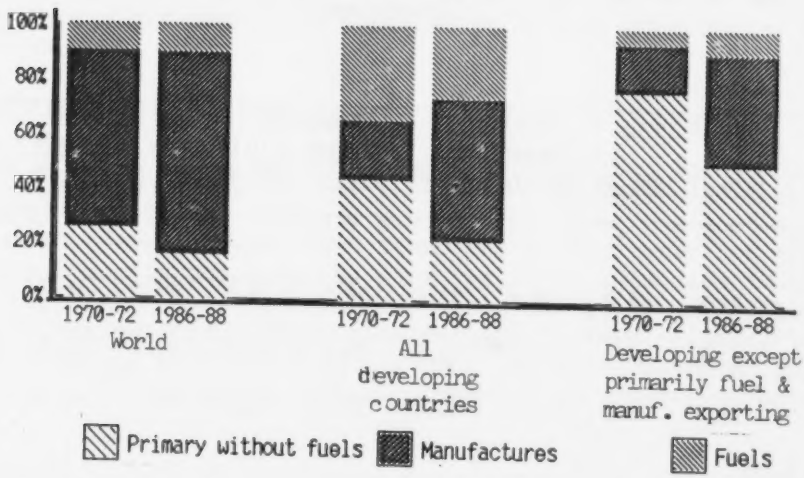
2. Changing structure of developing countries' commodity trade (1970-1972 to 1986-1988)

a. Commodities in total exports of developing countries

54. As seen from figure 4, the share of commodities in developing country exports has declined in parallel with the share of commodities in world trade. In 1986-1988, developing countries as a whole obtained 22 per cent of their export earnings from commodities, as compared to 44 per cent in 1970-1972. When 21 major exporters of petroleum and seven major exporters of manufacturers6/ are excluded, the decline is from 77 to 50 per cent. In spite of this remarkable decline, commodities continue to provide half of total export earnings for the bulk of the developing world.

Figure 4

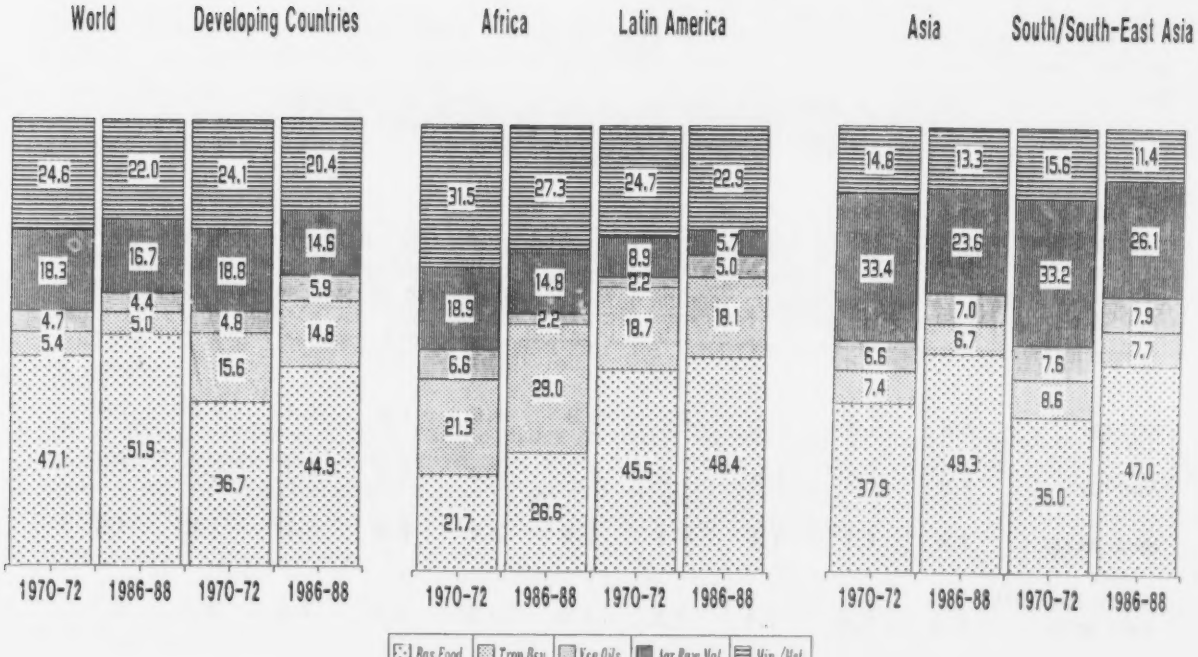
Distribution of Exports by Merchandise Groupings
(Percentages)



Source: UNCTAD secretariat caculations

Figure 5

Commodity export structure: developing regions and world
(1970-72 and 1986-88)
(Percentages)



Source: UNCTAD Commodity Yearbook, various issues.

Table 2

Shares of regions in exports of developing countries by principal commodity groups (1970-1972 and 1980-1988)
(percentages)

Region	Basic foods		Tropical beverages		Vegetable oilseeds & oils		Agricultural raw materials		Metals and minerals	
	1970-72	1986-88	1070-72	1986-88	1970-72	1986-88	1970-72	1986-88	1970-72	1986-88
Africa	21.2	15.2	36.2	31.2	38.5	8.1	25.3	16.7	34.0	20.6
America	51.4	46.8	51.1	53.5	18.3	45.4	28.9	32.6	40.8	48.4
Asia	24.6	36.7	11.9	13.8	38.8	43.4	41.7	45.8	19.5	24.9
South and South East Asia	20.6	31.6	11.6	13.7	37.7	42.5	36.5	41.0	17.0	18.7
All developing countries as % of world	32.5	29.3	92.9	85.4	32.2	27.7	30.2	25.1	31.3	25.8

Source: UNCTAD databank.

Table 3

Shares of developing regions in world imports by principal commodity groups (1970-1972 and 1980-1988)
(percentages)

Region	Basic foods		Tropical beverages		Vegetable oilseeds & oils		Agricultural raw materials		Metals and minerals	
	1970-72	1986-88	1070-72	1986-88	1970-72	1986-88	1970-72	1986-88	1970-72	1986-88
Africa	3.8	4.5	2.1	3.3	3.8	4.6	1.2	2.1	0.8	1.4
America	4.0	2.3	1.8	1.0	2.8	3.8	2.5	2.1	2.6	2.5
West Asia	1.6	1.7	1.1	0.7	1.8	2.0	0.8	1.2	1.6	1.3
South and South East Asia	6.4	5.6	1.4	2.9	6.0	7.6	5.5	7.4	3.1	5.7

Source: UNCTAD databank.

(b) Main commodity groups in developing countries' commodity trade

55. As seen in figure 5 and tables 2 and 3, between 1970-1972 and 1986-1988, the structure and pattern of developing countries' commodity trade changed considerably. These changes reflect "successes" and "failures" which have affected both exports and imports.The following is a brief summary of the principal changes.

(i) Basic foods

56. The share of basic foods in total commodity trade has increased for all groups of developing countries and for the world. The share of developing countries, however, declined. Fishery products has been the most dynamic component of world trade in basic food items and particularly for developing country exporters, mostly owing to the performance of South and South-East Asian region. Technological improvements, including those concerning "factory ships" and fish farming, have helped considerably in this respect. This, together with expanding rice exports, has been the main reason of the phenomenal increase in the share of basic foods in the export structure of Asia.

57. A significant feature of developing countries' food trade is the rising importance of Africa as a food importer.

(ii) Tropical beverages

58. The relative importance of tropical beverages in developing countries' commodity exports remained roughly constant between 1970-1972 and 1986-1988. It increased for Africa, however, because the volume of its tropical beverage exports remained roughly the same, while those of all other main commodity groups declined. Meanwhile, the quantities of tropical beverage exports from other regions increased, causing Africa's relative importance among the developing regions in tropical beverages exports to decline.

59. A number of significant changes have taken place in tropical beverage trade at the individual commodity/country level. These can be summarized as the decline of Ghana and Nigeria and the rise of Côte d'Ivoire, Malaysia and later Indonesia in terms of cocoa exports and the decline of India and Sri Lanka and the rise of Kenya and China in terms of tea exports.

60. The importance of developing countries as importers of tea increased while that of the EEC declined from 50 per cent to 30 per cent of world imports between 1970-1972 and 1986-1988. The increase was sharpest for Africa. Its share went up from 11 per cent to 25 per cent of world imports, mainly as a result of increased imports by North African countries. The main shifts in the pattern of cocoa and coffee imports have been among developed regions.

61. World coffee trade takes place mainly in the raw form of green coffee. Although processed coffee in the form of coffee extracts provides more than 10 per cent of coffee export earnings for Brazil and Côte d'Ivoire, the proportion is negligible for other developing countries.

62. In the world trade of cocoa and cocoa products, including chocolate, processed and manufactured forms constitute a higher aggregate value than cocoa beans and comprise an increasing share of total trade. Developing countries have been able to make only very small inroads into world chocolate trade for both technical and commercial reasons. Processed forms such as cocoa powder and butter, however, have become significant, in particular for Latin America, where export earnings from processed forms have recently surpassed those from cocoa beans.

(iii) Vegetable oilseeds and oils

63. The small increase in the share of vegetable oilseeds and oils in total commodity exports of developing countries must be seen in the light of two factors affecting the trade patterns for this commodity group. The first is the rise in the share of industrialized countries in world vegetable oilseed and oil exports between 1970-1972 and 1986-1988, inter alia as a result of support policies. The second factor is the opposite trends observed for Africa and Latin America. While the share of Africa in world exports declined by about 30 percentage points due to a long-term stagnation of production, that of Latin America increased by the same amount. In the Asian region, while exports increased substantially in some countries, they declined in others. Successful research and development activities in Asia, based on earlier research in Africa, were instrumental in this expansion. Efforts to improve the substitutability of palm oil for other vegetable oils, as well as its storability, complemented by concerted marketing efforts, have also been important factors.

64. Vegetable oils became an increasingly important component of commodity imports of developing countries. Regional trade expanded, particularly within Latin America and South and South-East Asia.

(iv) Agricultural raw materials

65. The share of agricultural raw materials declined both in world commodity trade and in total commodity exports of developing countries. The decline was greater in the case of developing countries and was accounted for, almost totally, by cotton.7/ This is principally a reflection of increased local processing in these countries. Recurrent production problems in the main cotton-exporting countries of Africa also reduced developing countries' cotton exports.

66. World trade in jute and hard fibres fell drastically as demand faltered owing to competition from synthetics and increased bulk handling of exports which reduced the need for bags made of natural fibres.

67. Being inputs for industry, imports of agricultural raw materials are inextricably related to industrial activity. In this respect, rapid industrialization in South and South-East Asia has been crucially important. The growth of cotton imports by the Republic of Korea, Hong Kong, Taiwan Province of China and Thailand is the equivalent of more than one half of the increase in world imports over the two decades.

68. Developing countries, in particular Asian and Latin American ones, have considerably increased their local processing. In addition to cotton, the rubber trade as well has shown a shift from raw to processed forms. In 1986-1988 developing countries' export revenue from tyres and rubber articles equalled almost half of their export earnings from raw natural rubber. In 1970-1972, the corresponding proportion was less than one-tenth. Trade in processed forms of tropical timber also expanded faster than in raw forms. Latin American countries, in particular Brazil, have traditionally exported processed forms. Processed forms are replacing log exports in Asia as well, where the main producing countries recently introduced measures banning or strongly discouraging exports of raw timber. These have been very effective, and Indonesia, which was first to implement them, now exports only processed forms.

(v) Metals and minerals

69. Between 1970-1972 and 1986-1988, metals and minerals became relatively less important among commodity exports of all developing regions. Here again, the performance of Africa differs from that of Asia and Latin America. Metals and minerals exports from the latter two have expanded in tandem with world exports, while those from Africa lagged behind. In Latin America new operations replaced some old ones. For example, declining output of bauxite in the Caribbean region was made up by new production in Brazil. In Africa, however, factors such as the exhaustion of high quality reserves (e.g.of Mauritania's iron ore) or recurrent problems (e.g. those caused by foreign exchange shortages in Zambia) affected production and exports.

70. Between 1970-1972 and 1986-1988, Japan and newly industrializing economies of South and South-East Asia became increasingly important destinations for metal and mineral exports. Between 1970-1972 and 1986-1988, the share of Japan and South and South-East Asia in world copper imports went up from 14 per cent to 31 per cent and from 0 to 6 per cent, respectively. In the case of iron ore, they rose from 41 per cent to 44 per cent and from 0 to 5 per cent. Although suppliers such as Australia for iron ore and Papua New Guinea for copper, which are relatively close to this region, have captured major shares in these markets, Zambia has been successful in exporting substantial amounts of copper and Brazil, iron ore.

71. As in the case of agricultural raw materials, world trade in metals and minerals is taking place more and more in processed forms. For example, while in 1970-1972 the aggregate value of world iron ore trade was 1.5 times that of processed forms (up to and including iron and steel ingots), the situation was exactly reversed in 1986-1988. This has been basically the result of a phenomenal increase in the processed exports of newly industrializing countries in South and South-East Asia which import the raw material. Among the main iron-ore-producing developing countries, Brazil and Venezuela considerably increased the share of processed exports in their total exports of the commodity, while the African producers continued to export almost exclusively ore. In the case of copper and bauxite/aluminium, exports of items at the "worked" stage earn for developing countries only 10 per cent and 16 per cent respectively of their total export revenues of the commodity. Exports are concentrated in the middle stages such as refined copper and alumina.

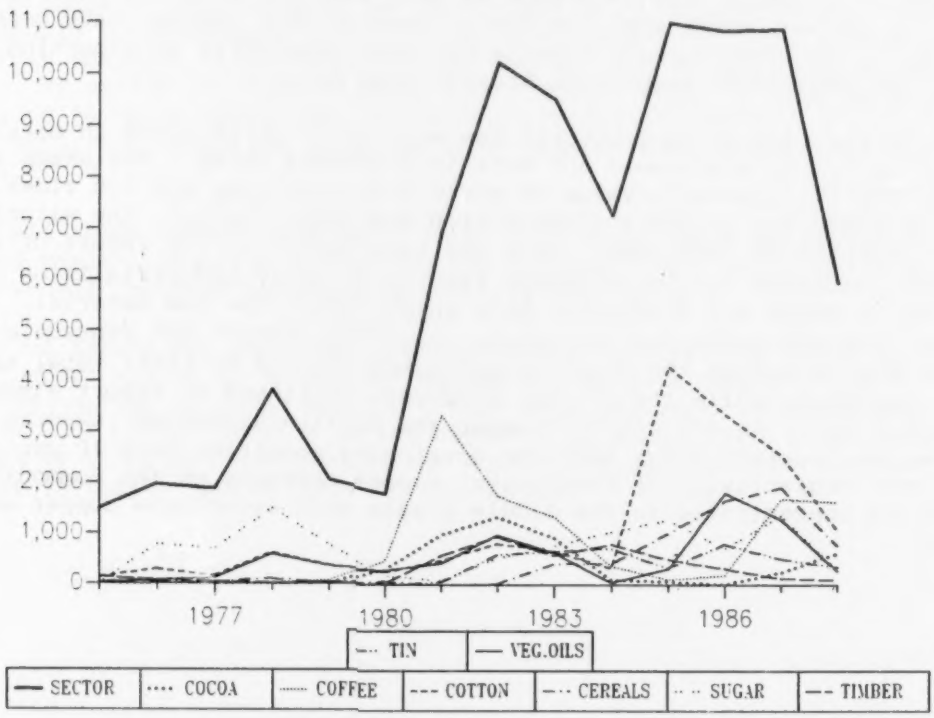
72. The phosphate sector provides another example of increased processing activities in developing countries. Between 1970-1972 and 1986-1988, the proportion of export earnings in the phosphate sector provided for developing countries by processed forms, namely phosphoric acid and superphosphate, went up from 12 to 34 per cent. Among the main producers, Togo did not follow this trend, continuing to export phosphate rock.

B. Instability in export earnings, and the finance provided

73. During the period 1975-1988, virtually all developing countries experienced shortfalls in their commodity-related export earnings; twelve developing countries experienced such shortfalls in the 1980s only. The average annual earnings shortfall for non-fuel commodity exports of developing countries was $US 6,113 million on the basis of a four-year arithmetic average formula. As can be seen from figure 6 which shows the total gross shortfall in commodity export earnings of developing countries for the period 1975-1988 and shortfalls for the eight commodities contributing most to this gross shortfall, the peak years for shortfalls were 1985 ($US 11,000 million) and 1987 ($US 10,850 million). All total annual shortfalls in the 1980s were higher than those in the 1970s; this reflected the fact that three major commodity exporters experienced significant shortfalls in the 1980s in respect of tin, vegetable oils and cotton. In addition, sizeable shortfalls occurred roughly at the same time for these and a number of other commodities. Thirty-five developing countries with non-fuel commodity export dependence of above 80 per cent accounted for 15 per cent of the total shortfalls during the whole period and forty-eight developing countries with a dependency of between 40 and 80 per cent accounted for 62 per cent of the total. Eight

Figure 6

Earning's shortfalls for non-fuel commodity exports of developing countries: total and the eight most important commodities
(Millions of US dollars)



Source: UNCTAD secretariat calculations based on four-year arithmetic average formula.

commodities, namely, cereals, cocoa and coffee, cotton, sugar, tropical timber, tin and vegetable oils represented 75 per cent of total shortfalls. Of these eight commodities, five compete directly with production and exports from developed countries, which are the major suppliers and many of which provide subsidies to their domestic production and exports. Shortfalls in cocoa and coffee which represent only 18 per cent of total shortfalls, affected almost half of the developing countries.

74. Twelve developing countries - all of which are principal commodity exporters - received half of the total finance made available under the IMF-CFF ($US 14.6 billion), almost half of which went to two countries (Argentina and Brazil). The least developed countries received only 8 per cent of IMF-CFF drawings, with their share in total shortfalls being of a similar order. Transfers under STABEX for the whole period were $US 2.4 billion, with over half going to six countries (Cameroon, Côte d'Ivoire, Ethiopia, Papua New Guinea, Senegal and Sudan) which accounted for 8 per cent of all shortfalls. Transfers in respect of cocoa and coffee represented 44 per cent of the total transfers. Since 1983 the number of drawings under the IMF-CFF has shrunk dramatically from over 20 a year up to 1983 to under 10 a year since then. The contrary was the situation with STABEX, which ran out of money in three years during the 1980s.

75. Compensatory finance was provided to four non-ACP LDCs (Bangladesh, Haiti, Nepal and Yemen) under STABEX-LDC-ALA for a total amount of $US 30 million in respect of shortfalls in 1986, 1987 and 1988. Under the Swiss Compensatory Financing Programme, which started operation in 1988, approximately $US 17.2 has been provided to least developed African countries in respect of shortfalls in their trade with Switzerland. The IMF-Compensatory and Contingency Facility came into operation in the fall of 1988. During 1989 there were drawings by only three countries (Algeria, Jordan and Mexico) under the compensatory financing component and none under the contingency component, although two arrangements allowing for access to contingency finance were entered into.

C. Economic conditions affecting the supply of commodities

1. Responsiveness of supply to world price signals

(a) Agricultural commodities

76. Goverments are frequently reluctant to link movements in domestic prices with those in international prices. Subsidies and taxes often change, thus cushioning price movements for agricultural commodities. In most developed countries, producers are almost completely insulated from world market price signals, and supply response depends upon agricultural support policies.

77. Several studies have shown that in developing countries, Governments tend to intervene to stabilize producer/consumer food prices, whereas prices for export crops are allowed to fluctuate more freely. For instance, according to a FAO study[8/], during the period 1967-1983, in years of rising international prices, 18 per cent of the average year-to-year increase in world prices was passed on to cereal producers and 41 per cent to export crop producers. By contrast, during years of decreasing international prices, domestic cereal prices declined by an average of less than 5 per cent of the percentage change in world prices, while export crop prices declined by 31 per cent of the international rate.

78. Table 4 brings out some interesting results concerning 1988 price levels relative to those in 1980. Although these results mask large country differences, since they consider averages for Europe, Latin America, Africa and Asia and take into account a sample of only 4 or 5 countries per region, they are nevertheless indicative of changes in domestic producer prices and the extent to which they reflect movements in world prices. The results, which are also affected by changes in exchange rates, point to the following conclusions: Latin American farmers fared worse than farmers elsewhere, not only in terms of a steeper drop in their producer prices but also in terms of attaining the lowest dollar-denominated producer prices in 1988 relative to other regions. In general, producer prices did not follow world price movements, and they even worked in opposite directions, particularly in Africa and Europe. In all four Latin American countries, producer prices were systematically lower than 1980 levels, even in those products where international prices rose. Asian countries managed to smooth out considerably the extremes of rises and falls in price movements, but there is also no clear link between changes in world prices and producer prices.

Table 4

Percentage changes (1988 relative to 1980) in prices received by producers of some major agricultural commodities
(converted into US dollars at the official exchange rate)

	World price	Europe[1/]	Latin America[2/]	Africa[3/]	Asia[4/]
Wheat	-16.8	-7.0	-31.6	-9.4	-7.7
Rice	-30.5	8.9	-38.9	4.7	-15.4
Maize	-16.1	-3.7	-33.5	-11.7	0.4
Bananas	20.1	-	-29.4	-21.2	-3.2
Oranges	7.0	-15.1	-14.6	-18.8	-14.4
Milk	27.5	27.1	-41.3	-22.5	16.4
Groundnuts	-41.5	17.4	-34.0	2.6	0.8
Soybeans	2.4	8.4	-8.0	10.9	7.3
Coffee	-23.8	-	-54.0	-29.3	7.0
Cocoa	-38.9	-	-50.7	1.5	-5.4
Cotton	-32.8	-12.5	-38.3	-22.1	-19.8
Tobacco leaves	14.1	12.8	-27.5	-12.4	-34.6
Wool	6.4	-9.1	-69.3	-21.4	1.8

1/ Refers to the simple average of five countries: Denmark, France, Greece, Italy and the Netherlands.
2/ Refers to the simple average of four countries: Colombia, Dominican Republic, El Salvador and Paraguay.
3/ Refers to the simple average of five countries: Burundi, Malawi, Côte d'Ivoire, Kenya and Morocco.
4/ Refers to the simple average of five countries: Pakistan, Malaysia, India, Sri Lanka and Indonesia.

Source: Based on FAO producer price data and UNCTAD data on official exchange rates and world prices.

Note: Regional averages are simple averages of the data for countries covered in that region.

(b) Metals and minerals

79. The low short-term response of supply in the mining sector to price decreases owes a great deal to the fact that a high proportion of mining and smelting costs are fixed. The need to service debt, to earn foreign exchange and to preserve employment has been a powerful influence, particularly in state-owned companies in developing countries, to maintain operating rates at high levels even during periods of low prices. On occasions, such production policies were supported by government direct or indirect protection, subsidising temporary losses in order to avoid closure and re-opening costs.

80. Another factor affecting the transmission mechanism is that quantities supplied are often determined on the basis of contracts or of intra-firm relationships. For example, more than 95 per cent of bauxite is traded under long-term contracts and a large proportion of this through intra-firm transactions by the six major bauxite, alumina and aluminium producers. Most developing country copper concentrate supplies are linked by long-term contracts to smelters, and a substantial amount of iron ore in world trade is also sold under long-term marketing arrangements. The prevalence of long-term contracts and tied marketing arrangements tends to dampen the response of supply to price signals.

2. Responsiveness of supply to major policy changes in indebted developing countries

81. It is often argued that policy reforms such as exchange rate depreciation and import liberalization will stimulate exports and provide necessary foreign exchange to service foreign debt. The question therefore arises as to whether these policy reforms have led to a commodity export drive. Our inquiry, which is limited to 25 indebted developing countries[9/] during the period 1985-1988, points to the following conclusions:

- Countries whose currencies have depreciated the most have not necessarily attained the greatest increase in the volume of their exports. In almost all the 25 sample countries the general picture is one of increased commodity export volumes, independently of the extent of the devaluation;

- Commodity export volume growth bears little relationship to the extent to which countries have liberalized their import regimes;

- There is little relationship between commodity export promotion measures and the extent to which countries have managed to increase exports. Country experiences show mixed results, due not only to close interlinkages between export promotion and other trade policy measures, but also to unforeseen events such as weather conditions, labour disputes and transportation and administrative problems;

- Exchange rate adjustment, import liberalization and export promotion policies in themselves do not explain growth in commodity exports. A stronger association exists in the sample countries between commodity export growth and debt-servicing pressure. Even though debt-serving pressure as such cannot explain success in expanding exports, it is nevertheless apparent that most of the highly indebted countries have shifted resources into the production of exportable commodities (as measured by the higher ratio of exports to GNP). Such a shift has been more important in countries subject to higher debt service pressure.

3. Recent changes in developed countries' policies in respect of commodity production

82. World markets for agricultural commodities continue to be heavily conditioned by domestic policies in the OECD area, including their trade measures, both import barriers and export subsidies. Even though the cost of intervention in OECD countries has come down in 1988 and 1989, this has been primarily a consequence of increases in world prices and currency movements, but not of fundamental changes in the policy mechanisms implemented. According to OECD estimates,[10/] total transfers from consumers and tax-payers due to agricultural policies fell from $US 282 billion in 1988 to $US 245 billion in 1989, a figure which remains substantially above the level of any year before 1986. Although the OECD average in US dollars fell because of a stronger US dollar, prices received by producers in national currencies increased in most countries, indicating that the contribution of adjustments in national policies to the reduction of assistance has been marginal.

83. The pressure to change domestic policies weakened because of high world prices for many agricultural commodities. Some action was taken to reduce support levels, but the reduction in the overall levels was small, and confined to specific commodities. Little progress has been made in trade specific measures, and where there were decreases in the levels of subsides and levies, they were mainly the result of world price increases.

84. OECD countries are starting to place emphasis on the effects of agricultural policies on the environment and are increasingly introducing measures which are addressed to health and environmental protection. Few have been implemented within a process of overall policy reform.

D. Factors affecting the demand for commodities

85. This section briefly reviews some of the reasons associated with the weak demand in the early 1980s and identifies those factors which spurred commodity consumption in recent years. After reviewing the impact of the age pattern of the population on food demand, it looks at the relationship between international prices and consumer prices.

1. Declining raw material intensity of industry

86. The relationship between the consumption of natural materials and industrial production has been and remains a complex one. The dwindling intensity of use of natural materials has not followed a steady decline. Rather the speed and direction of substitution, as well as economy of use through, for example, downsizing and recycling, result from an intricate interplay of factors. The most important of them can be summarized as follows:

- Progress in basic research on new advanced synthetic materials and raw-material-saving innovations is sporadic and erratically translated into practice;

- Some raw materials have fared better than others. Sisal and jute have generally been badly hurt by synthetic substitutes. High-intensity sweeteners have replaced sugar in a wide range of industrial uses. The consumption of aspartame, the low-calorie sweetener grew in Europe by as much as 30 per cent in the last two years. After initial retreats, however, a good number of natural materials have taken up the challenge

from synthetic substitutes. In cotton, for example, research was successfully undertaken to improve its features (quality, durability, reliability) and processing characteristics and make it fashionable. In some other cases raw materials have profited from expanded uses (such as expoxidized natural rubber or zinc-based galvanized steel), while in several cases (like copper and aluminium) natural raw materials are both the winners and losers;

- Competition between synthetic and natural materials depends on a variety of factors. The competition for market shares is influenced by technical performance in some end-uses, by consumer preferences and by environmental considerations, while for certain end-uses price stability and price differences between natural and synthetic inputs tip the balance.

2. Economic growth and commodity consumption

87. The consumption of natural materials has been affected by the decline in the natural material content of industrial output on the one hand and economic growth on the other. The swing of the growth pendulum to the service sector has also been a very important factor. Empirical evidence suggests that the pronounced slowdown in industrial growth and capital investment in the first half of the 1980s remained the single most important factor checking demand.11/

88. Economic growth, in particular in manufacturing output, stimulates commodity demand provided that it outweighs the downward pressure exerted by declining raw material intensity. Rapid economic growth, in particular when accompanied by a high level of investment as in the 1987-1989 period, enhances the importance of those sectors of the economy (in particular the capital goods sector and construction) which are relatively more material-intensive. When the economy is expanding slowly, however, commodity consumption tends to stagnate or contract.

3. Recent trend in import demand growth

89. The aggregate value of world primary commodity imports exhibited a marked turn-around in the second half of the 1980s. The countries in Western Europe and South/South-East Asia, as well as China, displayed particularly high rates of import value growth. As far as growth of import volume is concerned, the limitations of data availability and reliability make it difficult to analyze the evolution with the same degree of accuracy. Even so, the growth in import volumes in general appeared more dynamic than in the first part of this decade, in particular for minerals and metals.

90. As can be seen from table 5, GDP growth in the period 1985 to 1989 in developed market economies gathered momentum and, even more importantly, growth rates in the manufacturing sector surpassed that of GDP. Moreover, within this sector, growth tended to be concentrated in raw-material-intensive industries (metal products/machinery and equipment, wood and wood products and paper and paper products). This was the reverse of the situation in the 1970s and early 1980s.

91. The comparatively higher growth in raw-material intensive industries was largely triggered by the growth in gross fixed investment in industrial countries. While investment grew on average by 2 per cent and 3 per cent annually in the periods 1972-1981 and 1982-1986, growth of gross fixed investment was 6.2 per cent for the years 1987-1989.

Table 5

Annual rates of growth of GDP and main economic sectors in developed market-economy countries

	1971-1973 to 1981-1983	1985-1989
GDP	2.7	3.4
Industrial production	1.9	3.45
Mining	2.3	0.2
Manufacturing	1.7	3.85
Food, beverages, tobacco	2.4	2.3
Textiles	-0.3	1.4
Weaving apparel, leather	-0.4	-2.5
Wood and wood products	0.1	4.3
Paper/paper products/print	2.0	5.3
Chemicals	2.6	4.5
Non-metallic mineral products	0.8	3.2
Basic metals	0.7	2.3
Metal products, M&E	2.4	4.5
Electricity/gas/water	3.5	2.8

Source: U.N. Monthly Bulletin of Statistics (UNCTAD Data)

4. The demand for food and changes in the age pattern of population

92. Demand for food in developing countries has been closely related to population and income growth. In developed countries population growth is extremely low and income growth is no longer a prime determinant of food consumption. In these countries changing composition of food intake is a more important factor in respect of food demand. A factor which has received comparatively little attention is the changing age pattern of population in developed countries, which influences food consumption in terms of volume, composition and quality.

93. If one looks at the changing age pattern of the population one can draw at least two conclusions. First, the median age of population in developing countries has remained unchanged at 21 over the last 40 years and will only increase slightly by the turn of the century. Secondly, a significant aging of population will occur in developed countries. At the end of this century, pensioners will account for between a quarter and a fifth of the population in many developed countries. The most obvious consequence of this aging population is the tendency towards a lower per capita consumption of food. Moreover, dietary consciousness in developed countries will favour increased consumption of fruits and vegetables vis-à-vis meat, sugar and dairy products. Furthermore, health concerns favouring organically grown produce and high quality standards may well be a reflection of the aging population structure. On the other hand, per capita food consumption in developing countries is likely to grow, possibly substantially, if poverty is reduced.

5. The weak link between world market prices and domestic prices

94. Despite low price elasticities of demand, low international prices for primary commodities can stimulate commodity demand if international price signals are adequately passed - through to the consumers. An investigation comprising seven commodities was conducted with a view to analysing the correlation between international and domestic prices on a quarterly basis for the period 1985 to 1989.12/

95. The results show that for the commodities surveyed, on average only about one-third of the variation in international prices is reflected in domestic prices of consuming countries in the short term. The picture does not change significantly between the cases of commodities which are consumed more or less directly (tea, coffee, bananas) and those which are only inputs for the item chosen to represent domestic prices (cocoa/confectionary, natural rubber/tyres). In almost all cases, a time lag of three months between the international and domestic prices weakens the correlation. Looking at the individual commodities, only domestic prices for bananas closely followed movements of international price quotations. On the other hand, retail prices for tea bags barely changed in relation to movements in international tea prices.

96. Since retail prices vary little vis-à-vis price changes in international commodity markets, the latter have little impact on changes in consumption. However, manufacturers can modify the composition of certain products such as chocolates or some textiles to take into account relative changes of international prices, without the consumer being conscious of this fact. For example, when cocoa prices are low, the cocoa content of chocolate may be higher.

97. Some of the most important reasons for the weak link between international and domestic consumer prices are as follows: Firstly, many commodities comprise a small part of the cost of the end product in which they are incorporated. Thus, developments in international commodity prices hardly influence retail prices. For example, the cocoa cost component in the retail price of solid milk chocolate bars has varied between 10 and 20 per cent in the major consuming markets in recent years.13/ Even for a virtual final product like bananas, cif prices represent as little as 20 to 30 per cent of the retail price.14/ Secondly, a substantial number of commodities are not traded on commodity exchanges and for those that are, quoted prices are at best indicative. For commodities traded under long-term contracts, prices vary as a result of negotiations between buyers and sellers at given points of time. Finally, retail prices incorporate consumption taxes and other duties. For gasoline, for example, consumption taxes in many cases tend to counter or cushion international price movements.

NOTES

1/ Unless otherwise specified, commodities cover SITC (Rev.2) section 0, section 1, section 2 (less groups 233, 244, 266, 267), section 4, division 68 and item 522,56. The subdivisions are as follows: Basic foods - SITC 0+1, Tropical beverages: - SITC 071,072,074, vegetable oilseeds oleaginous fruits and oils:- SITC 22 and 42, agricultural raw materials SITC section 2 (less divisions 22, 27, 28 and groups 233, 244, 266 and 267) and minerals,ores and metals: - SITC divisions 27, 28, 68, and item 522.56.

2/ Moreover the quantity of its exports of vegetable oilseeds and oils in both years, its tropical beverages exports in 1987 and metals and minerals in 1988 were only marginally below the peaks.

3/ The share of fuels in world trade in 1986-1988 was around 10 per cent, about the same as it was in 1970-1972. In 1980-1981 it had reached almost one quarter.

4/ In order to smooth out the effects of abnormal years, three year averages are used in this section.

5/ It is clear that a similar phenomenon is occurring for some industrial goods such as electronic machinery. As new generations of equipment are produced, the price paid for an earlier vintage substantially declines. The basic difference between commodity producers and industrial goods producers is that while it is possible to move up to newer, more sophisticated and better valued items in industry, this option is extremely limited for commodity producers.

6/ Major petroleum-exporting developing countries or territories: Algeria, Angola, Bahrain, Brunei Darussalam, Congo, Ecuador, Gabon, Indonesia, Iran (Islamic Republic of), Iraq, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Oman, Qatar, Saudi Arabia, Syrian Arab Republic, Trinidad and Tobago, United Arab Emirates and Venezuela. Major manufacture-exporting developing countries or territories: Argentina, Brazil, Hong Kong, Republic of Korea, Singapore, Taiwan Province of China and Yugoslavia.

7/ When considering the very high share of export earnings from yarn and fabrics for Asia as a whole, account must be taken of the importance of the South-East Asian region, where countries are exporters of processed forms and importers of raw cotton.

8/ See FAO, "Agricultural Price Policies: issues and proposals", 1987

9/ Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Côte d'Ivoire, Dominican Republic, Ecuador, Ghana, Guatemala, Kenya, Malawi, Malaysia, Mexico, Morocco, Nigeria, Papua New Guinea, Paraguay, Peru, Philippines, Thailand, Uruguay, Venezuela and Zaire.

10/ OECD, "Agricultural Policies, Markets and Trade: monitoring and outlook, 1990".

11/ For example see, Tilton, J.E., "The new view of minerals and economic growth", The Economic Record, vol. 65, No. 190 (September 1989).

12/Bananas, cocoa, coffee, natural rubber, petroleum, sugar and tea. The following products were considered as representative of domestic prices: bananas, confectionery, ground coffee, tyres, leaded gasoline (superior quality), white sugar, tea bags.

13/ For more details see: International Cocoa Organization, "Recent evolution of the share of the cocoa cost component in the retail price of chocolate in the United Kingdom" (AG/7/WP.10), Accra, June 1990.

14/ For more information in this regard see: FAO, "the World Banana Economy 1970-84", Economic and Social Development Paper No. 57, Rome 1986.

DISPOSAL OF NON-COMMERCIAL STOCKS

(a) Actions taken by Governments during the last two years

1. In this annex, actions by individual Governments with regard to Government-held non-commercial stocks[1/] of minerals and metals during the last two years are briefly reviewed. This review is based on information provided by States and on information published in trade journals.

2. In Japan, non-commercial stocks of metals were established in 1983. These consist of two parts:

(i) Private stocks held by the Japan Rare Metals Association, financed by companies participating in the scheme;

(ii) National stocks held by the Metal Mining Agency of Japan (MMAJ), financed by loans against Government guarantees, with the Government paying interest and transaction costs.

3. Stocks are split among the two parts in the proportions 3:7. The target level for the stocks is 60 days' Japanese consumption. This level was to be reached in 1987/88 according to initial plans, but acquisitions have proceeded at a slower pace than was planned. At the end of the fiscal year 1989 (in March 1990), stocks corresponding to 50.4 days' consumption had been accumulated. The stocks, which would be used to counter sudden critical shortages of one or several mineral commodities, include chromium, cobalt, manganese, molybdenum, nickel, tungsten and vanadium.

4. The Japanese Government has not engaged in any consultations on disposals of material with other Governments or international agencies.

5. In the Republic of Korea, expenditure of 115,000 million won (about 160 million US dollars) has been approved for the import of 30,000 tons of aluminium, 5,000 tons of copper, 1,000 tons of nickel and 6,000 tons of zinc during 1990 to constitute part of non-commercial stocks intended to help smooth supply of these materials to the domestic market. The stocks will also include 3,500 tons of ferro-silicon, 1,000 tons of ferro-chrome, 50 tons of ferro-vanadium, 30 tons of cobalt powder and 200,000 tons of small steel bars.[2/]

6. In Sweden, two types of non-commercial stocks are held by the Government, namely strategic reserves, which are intended for consumption under war or crisis conditions, and "reserves for peacetime crises", or non-strategic reserves. As regards the strategic reserves, a restructuring of their composition, involving both sales and acquisitions, is under way. At present, the following minerals and metals are stocked: chromium, cobalt, manganese, molybdenum, nickel, tin, tungsten and zinc. Other minerals, such as aluminium, titanium, vanadium and possibly coke, will be added. The Swedish Government has further decided, with regard to the reserves for peacetime crises, that with the exception of oil, the responsibility for holding sufficient stocks of the commodities involved should devolve on industry. Consequently, existing stocks of these commodities will be sold before 1 July 1992. At the end of March 1990, the value of remaining stocks, excluding oil, was 90 million Swedish kronor (about 15 million US dollars).

Commodities concerned include petrochemicals, chromium, manganese, cobalt, vanadium, molybdenum, nickel, titanium and tungsten. Responsibility for stocks of oil has been transferred from the National Board of Civilian Preparedness to the National Energy Board.

7. In the United States, goals for some metals and minerals included in the National Strategic Defense Stockpile were changed in late 1989. These changes are summarized in annex table 1.

Annex table 1

Changes in goals for some minerals and metals in the United States National Strategic Defense Stockpile as of November 1989
(metric tons unless otherwise stated)

	New goal	Old goal
Aluminium oxide, abrasive grade	339,285a/	578,781
Antimony	80,285a/	32,658
Asbestos	0b/	15,419
Bauxite, refractory, calcined	1,259,840a/	1,422,400
Bismuth	481b/	999
Chromite ore, refractory	630,490a/	771,103
Columbian group, Cb contained	5,683a/	2,201
Fluorspar, acid-grade	816,462a/	1,270,052
Fluorspar, metallurgical grade	281,226b/	1,542,206
Graphite	14,630b/	20,680
Industrial diamonds, carats	7,730,000b/	29,730,000
Manganese, battery-grade	45,359b/	78,925
Mica	1,135b/	2,815
Platinum group metals		
Iridium	2.7a/	3.0
Palladium	66.9a/	93.3
Quartz crystals	109 b/	272
Talc	0 b/	25
Tungsten, contained	31,814b/	22,997

a/ Goal higher than inventory as of March 1989.
b/ Goal lower than inventory as of November 1989.

Source: Public Law 101-189, 29 November 1989 (goals); and Department of Defense, "Strategic and Critical Materials Report to the Congress, February 1990" (information on present inventory).

8. During fiscal year 1988, 27 tons of beryllium and 30 tons of germanium were purchased for the stockpile. Under a special programme for the upgrading of ferro-alloys held in the stockpile, 44,395 tons of high carbon ferro-manganese and 26,236 tons of high carbon ferro-chrome were acquired in fiscal year 1988.3/ During the first half of fiscal year 1989, up to 31 March 1989, 22,300 tons of ferro-managenese and 18,560 tons of ferro-chrome were acquired under the same programme. No other acquisitions were made.4/

9. For fiscal years 1990 and 1991, disposals of 30,830 tons of asbestos, 116 tons of bismuth, 8 million carats of industrial diamonds, 13,605 tons of metallurgical fluorspar,4,089 tons of graphite, 517 tons of mercury, 4.5 tons of mica, 626 tons of silicon carbide, 25 tons of talc, and 5,000 tons of tin have been authorized for disposal.5/ Materials previously authorized for disposal included asbestos, industrial diamonds, iodine, kyanite, manganese, mercury, mica, quartz crystals, silicon carbide, silver, talc, thorium, tin and tungsten.

10. For acquisitions, 180 million US dollars have been allocated from the stockpile Transaction Fund, covering acquisitions and the cost of upgrading services during each of the fiscal years 1990 and 1991. It can be assumed that materials acquired will mainly be those for which the present inventory is lower than goals (see annex Table 1), while the ferro-alloys upgrading programme,for which 30 million dollars have been allocated for each fiscal year, will focus on ferro-manganese and ferro-chrome.

11. As regards the stocks of the Governments of France and the United Kingdom, no information concerning acquisitions or disposals is available.6/

(b) Consultations and possible effects of acquisitions and disposals

12. Of the Governments having disposed of minerals and metals held in non-commercial stocks during 1989 and 1990, only the United States has, as far as is known, undertaken any consultations with Governments of producing countries. Disposals undertaken by the Governments of Sweden and the United States, and possibly other Governments, have had no easily discernible impact on prices.

Annex Notes

1/ These are stocks of commodities held by Governments for strategic or other non-commercial purposes, the disposal of which may have an impact on the markets of the commodities concerned. The seventh UNCTAD Conference, in its Final Act (para. 97), underlined that disposal of non-commercial stocks should not disrupt commodity markets and should be done in consultation with producers, and where appropriate, commodity organizations, bearing in mind Conference resolution 155(VI), paragraph 14, and decisions 4(V) and 23(XI), paragraph 8, of the Committee on Commodities. It further agreed that the situation of disposal of non-commercial stocks should be reviewed in the light of UNCTAD's mandates (para. 99 of the Final Act).

2/ Metal Bulletin, London, 18 January 1990.

3/ Department of Defense, "Strategic and Critical Materials Reports to the Congress, Washington, D.C. March and November 1989.

4/ Department of Defense, "Strategic and Critical Materials Report to the Congress, Washington, D.C. February 1990.

5/ Public Law 101-189, 29 November 1989.

6/ For information on the stocks of these two countries, see "Implementation of Decision 4(V) of the Committee on Commodities relating to disposal of surpluses, strategic reserves or other government-held non-commercial inventories of primary products" (TD/B/C.1/287), paragraphs 37-41 and 57-59, Geneva, 11 November 1986, and "Recent developments in the world commodity situation" (TD/B/C.1/299), annex, paragraphs 2 and 5, Geneva, 26 September 1988.

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DIVERSIFICATION, PROCESSING, MARKETING AND DISTRIBUTION, INCLUDING TRANSPORTATION

Suggestions for further research and analysis in the area of diversification, processing, marketing and distribution, including transportation

Note by the UNCTAD secretariat

1. The Working Party on Diversification, Processing, Marketing and Distribution, including Transportation, at its second session, requested the secretariat to submit to the Committee on Commodities its suggestions for specific studies in the following two areas. In paragraphs 8 and 9 of its agreed conclusions the Working Party decided:

(1) "that further research and analysis were required on the impact on diversification of various market access conditions, government policies, structural adjustment programmes and the forms and methods of trading for primary and processed commodities"; and

(2) "that further research on experience with diversification across countries needed to be undertaken which could assist in the formulation of policy options of Governments and international organizations, bearing in mind the relevance of the experience to the prevailing situation".

This note responds to the request made by the Working Party.

A. The impact on diversification of market access conditions

2. Markets with the largest effective demand, in particular those of the industrialized countries, are not always readily accessible to developing countries' commodity products, because of tariffs, non-tariff barriers, restrictive business practices, and lack of the necessary market information.

At the second session of the Working Party interest was expressed in an analysis of the extent to which the existence of market access barriers of various types has prevented or limited diversification and the extent to which their absence has encouraged it. Moreover, market access conditions can influence a country's perceptions of its possibilities for viable diversification.

3. It is suggested that a study should be carried out on the impact on diversification of various market access situations. Such a study would examine, inter alia, (1) whether the types of barriers and their impacts differ as between various types of commodities such as minerals, foods, raw materials, and as between their resultant products in semi-processed or processed form; (2) whether tariffs or various non-tariff barriers have a differing impact; and (3) whether industry structures determine or influence the direction of trade.

4. It is proposed to study the question of market access, and its relative importance compared to other factors, by concentrating the analysis on a few sample commodities (chosen so that they represent different characteristics) for which there is sufficient information. For these commodities, in raw and processed form, the market access barriers facing exporting developing countries in a range of markets will be identified. Then, it is proposed to compare the experiences of countries facing high tariff or non-tariff barriers with those facing lower barriers for these products, analysing the experiences both of countries which have shown a growth in exports for the products selected for analysis and those without such a growth. From preliminary reviews, it would appear that some countries facing relatively high barriers to exports, have managed to increase their exports, whereas others, exporting identical products and facing the same or lower barriers, have not. It also appears that in certain cases the development of a sector has been inhibited by import ceilings imposed by developed market economies, whereas, on the other hand, in certain countries diversification has been facilitated by guaranteed access for a specified volume of products. The reasons for these situations would seem to warrant further study.

B. The impact of government policies, including structural adjustment programmes, on diversification

5. In the secretariat report on the identification of sectors offering opportunities for diversification (TD/B/C.1/AC/7) of July 1989, an initial identification was made of selected economic and policy indicators bearing on diversification experiences. A more disaggregated approach with respect to the indicators could be adopted taking into account internal conditions and policies as well as external factors which influence the viability of diversification programmes. Such an analysis should enable conclusions to be drawn on whether past experiences are consistent from country to country and whether any common elements for the realization of diversification have been present.

6. It is often argued that there is a direct relation between certain government policies and diversification experiences. This hypothesis could be tested for a sample of countries, analysing whether specific government measures have been positively or negatively correlated with diversification efforts. In this regard, certain questions need to be addressed. For example, how do world market conditions influence the viability of policy measures or, more specifically, how do conditions on the world markets for a

country's commodity exports influence its policy formulation and implementation, and does this have an impact on diversification policies? Is a country limited in the policy changes it can implement because of its dependence on a volatile export market? Another question concerns the ways in which a country's diversification programme may be influenced by its debt problems. How does the pressure to maximize export earnings in the short term influence opportunities for diversification and the realization of these opportunities?. In undertaking case studies two underlying themes could receive special attention: the effects of economic adjustment programmes on diversification and the role of the government through development and implementation of a diversification programme.

7. Since the early 1980s, government policy in most developing countries has gone through a phase of intensive restructuring, often as part of an externally supported Structural Adjustment Programme. Such a restructuring involves policy changes in the field of export promotion, tariff and non-tariff protection, fiscal and financial policies, price liberalization, and government spending on infrastructural programmes. Adjustment programmes are not specifically geared towards the objective of diversification, and therefore their effects on the diversification of the economy, and especially of the export sector, are not clear. As it is agreed that export diversification reduces the vulnerability of developing countries' economies to external events beyond their control, it is important to be able to take into consideration the impact of adjustment programmes on diversification while formulating these programmes. The proposed research on this area would, for a representative sample of countries, identify the measures taken in the course of adjustment programmes and evaluate them in light of the conditions necessary to facilitate or stimulate diversification as identified earlier.

8. The international community, including through the Final Act of UNCTAD VII, has urged developing countries to develop and implement diversification programmes. It is therefore useful to consider what constitutes such programmes and what are important elements for deciding on their viability. In this regard it has often been claimed that the primary role to be played by governments in stimulating diversification is the creation of a supportive macro-economic framework. An alternative view would complement governments' responsibility for such a framework with their role in creating an enabling environment through the provision of, for example, investment incentives, infrastructure, services, education and training, research and development, and support for export marketing. The proposed research would analyse the existence and content of various sets of complementary policy measures and relate them to the actual experiences of countries in the field of diversification, to the extent that information is available. Bottlenecks and lacunae both in domestic and external policies would be discussed, as well as the actual and potential role of the international community.

C. <u>The impact of forms and methods of trading on diversification</u>

9. The forms and methods of international commodity marketing and their impact on commodity trade is an important but so far somewhat neglected facet of research on commodities. Making better use of the different forms of trading instruments which are available might enhance the foreign exchange earnings of developing countries, since in the the export of most commodities the largest proportion of the profits from export activity derives from payments for ancilliary services.

10. From the point of view of diversification of exports, a full understanding is required of marketing mechanisms and, in particular, of whether and how the mechanisms used for exports of processed products differ from those for the product in its raw or semi-processed form. Exports of non-traditional primary commodities also often require the use of different marketing systems from those used for traditional primary products.

11. Research on the impact on diversification of forms and methods of trading for primary and processed products can be approached from several angles. Firstly, a cross-commodity analysis of the major forms of trading used for primary commodities (forward sales, spot sales, futures and options, long-term contracts, countertrade, swaps and auctions) would illustrate how and why these forms differ among commodities and even among exporters of the same commodities. Such an analysis would also reveal the interaction between various instruments and the evolution in forms and their combinations, with emphasis on recent developments and innovations and preconditions for their use. A similar type of analysis would consider the forms and methods of trading used for processed commodities. In both analyses an attempt would be made to consider the advantages and disadvantages of various trading methods and systems, and the conditions necessary for participation by developing countries in these systems.

12. Secondly, an analysis of the methods of trading for primary and processed commodities could focus also on the role of various actors providing trading services (merchants, independent trading firms, subsidiaries of producers, processors or consumers, and other intermediaries such as brokerage houses, financial houses and commercial banks) and the extent to which the roles of these actors have changed. In this context it would be necessary to examine the growing relationships between the financial and the trading sectors, the differences for trading between single commodity and multiple-commodity firms, and between national and transnational firms, and the implications of these aspects for diversification efforts.

13. Thirdly, an analysis could be made, through a series of case studies, of the experiences of developing countries in the use of various marketing methods in diversification efforts, the problems encountered and solutions tried. The case studies could cover both traditional and non-traditional products in raw and processed forms.

D. Future work

14. The studies outlined above would need to be planned over a three to four year time span. It is proposed that work start immediately on the studies on the impact on diversification of market access conditions, the cross-country analysis of diversification experience and the cross-commodity analysis of the major forms of trading. The undertaking of these analyses would facilitate the selection of countries for studies on their experience with various policy measures, in terms of structural adjustment efforts and diversification programmes, and on their experience with their use of various marketing methods in diversification efforts.

15. It should be recalled that the Working Party has recommended that the UNCTAD secretariat continue to perform its co-ordinating role with respect to the identification of needs and gaps in technical assistance relevant to diversification, processing, marketing and distribution, and that it collect, synthesize and disseminate information on specific technical assistance needs and availabilities.

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REVIEW OF THE WORK PROGRAMME, WITH PARTICULAR REFERENCE TO THE RESULTS OF INTERGOVERNMENTAL CONSULTATIONS HELD PURSUANT TO THE RELEVANT PARAGRAPHS OF THE FINAL ACT OF UNCTAD VII

Review of the work programme of the Committee, implementation of decisions relating thereto and proposals for future work

Report by the UNCTAD secretariat

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CONTENTS

	Paragraphs
Introduction and Summary	1
Chapter	
I. The Committee's work programme and actions by governments and the secretariat	4 - 67
A. Review of the commodity situation and outlook	4
B. Work on individual commodities	4 - 57
C. Developmental and general objective of international commodity policy	58 - 67
1. International co-operation on diversification, processing, marketing and distribution, including transportation	58 - 61
2. Market access	62 - 64
3. Synthetics and substitutes	65 - 66
4. Expansion of commodity trade	67
II. Consultations and co-operation with other international organizations	68 - 85
A. United nations bodies	69 - 74
1. Administrative committee on co-ordination (ACC)	69 - 70
2. ITC/UNCTAD/GATT	71
3. Regional commissions	72
4. UNDP	73 - 74
B. Specialized agencies	75 - 85
1. FAO	75
2. International monetary fund (IMF)/World Bank	76
C. Autonomous commodity councils and study groups	77 - 85
1. International Cocoa Council	78 - 81
2. International Coffee Organiztions (ICO)	82
3. International Jute Organization (IJO)	83
4. International Nickel Study Group (INSG)	84
5. Common Fund	85
III. Future work	86 - 98
1. Individual commodities	88 - 91
2. International co-operation on diversification, processing, marketing and distribution	92 - 93
3. Compensatory Financing	94 - 95
4. Expansion of commodity trade	96
5. Commodity situation and outlook	97
6. Consultation and co-operation with international organizations	98
Footnotes	

INTRODUCTION AND SUMMARY

1. The Trade and Development Board decided, in paragraph 16 of its resolution 231(XXII) of 20 March 1980, "to request the main Committees to review regularly the elaboration of their work programmes and the implementation of their decisions". Moreover, in paragraphs 6 and 7 of the "Report of the Ad hoc Intergovernmental Working Group on the In-depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields" (TD/B/1154), endorsed by the Board in its resolution 352(XXXIV) of 20 November 1987, each of the main Committees is required at each regular session, without prejudice to its mandate, to (a) review the elaboration of its work programme and implementation of its decisions; (b) consider and decide the work ahead including tasks to be introduced or postponed in the work programme, and (c) ensure that any specific tasks be clearly defined with a timetable for their accomplishment.

2. Chapter I of the present document reviews the work programme of the Committee on Commodities in the light of developments since its thirteenth session. It is structured on the basis of the orientations for the work programme of the Committee as set out in Agreed Conclusion 25(XIII). These cover the following areas: (i) review of the commodity situation and outlook; (ii) work on individual commodities; (iii) work on developmental and general objectives of international commodity policy. The main developments since the Committee's last session having a bearing on its work programme are:

(a) The adoption by the Trade and Development Board of its decision 379(S-XVI) by which it decided that the problem of commodity export earning shortfalls of developing countries arising from market instability, as well as the question of compensatory financing of export earnings shortfalls, should be kept under review in UNCTAD as part of the ongoing work of the Committee on Commodities.

(b) The adoption by the Trade and Development Board of its decision 382(XXXVI) by which it decided that UNCTAD's work on iron ore should be maintained and that regular intergovernmental meetings of experts should be convened, with the participation of industry advisers, to exchange views on the iron ore situation and to review and enhance iron ore statistics.

3. Chapter II describes co-operation and co-ordination with other international organisations in the area of commodities. Chapter III outlines the possible orientations for future work of the Committee. The whole document should be read in conjunction with the documents submitted under item 3 and 4 of the provisional agenda (TD/B/C.1/309 and TD/B/C.1/310).

Chapter I

THE COMMITTEE'S WORK PROGRAMME AND ACTIONS BY GOVERNMENTS AND THE SECRETARIAT

A. Review of the commodity situation and outlook

4. The mandate for the work in this area is derived essentially from the terms of reference of the Committee on Commodities, and its relevant decisions and agreed conclusions. The Committee on Commodities in its agreed conclusion 25(XIII) listed a large number of issues on which work in this area should focus. These were: cyclical and structural factors, as well as government policies, affecting the supply and demand patterns of commodity trade; the effects of fluctuating exchange rates on commodity prices; the interrelationships between economic and financial constraints faced by developing countries and commodity production and trade; the sensitivity of demand and prices of commodities to growth in consuming countries, in particular industrialized countries; the response of supply to changing market conditions; the impact of technological advances on supply and consumption of commodities; changing directions and pattern in trade of commodities; changes in marketing and pricing systems and practices; and the disposal of non-commercial stocks.

5. For the fourteenth session of the Committee, the secretariat has prepared a report entitled "Review of the commodity situation and outlook, 1990" (TD/B/C.1/309). The report discusses a number of the issues listed above and in particular the changing directions and patterns of commodity trade, the responsiveness of supply to economic conditions and the responsiveness of demand to market conditions. It also deals with several factors which limit the effectiveness of prices in balancing supply and demand. Recent developments concerning the issue of the disposal of non-commercial stocks of individual commodities are reported in the annex to that report.

B. Work on individual commodities

6. The Committee decided that the work on individual commodities should continue. The following describes intergovernmental decisions as well as action by the secretariat taken in relation to individual commodities since the Committee's last session.

International Commodity arrangements

Cocoa

7. The International Cocoa Agreement, 1986, was due to expire on 30 September 1990. The economic mechanism of the Agreement has, in effect, been inoperative since February 1988, when the levy-financed buffer stock held under the Agreement reached its maximum capacity of 250,000 tons. The withholding scheme, the second line of price defence, under which a total of 120,000 tons of cocoa could be withheld, was not put into effect.

8. On 30 March 1990, the International Cocoa Council adopted, without dissent, a decision to extend the Agreement "in part" for a period of two years from 1 October 1990 and to maintain the buffer stock during the period of extension. The economic provisions of the Agreement were not extended, with the exception of certain provisions relating to the maintenance of the buffer stock. In adopting this decision the members of the Agreement were

"convinced of the necessity of continuing international co-operation in all sectors of the world cocoa economy" and appreciated "the need to continue the search for adequate solutions to the problems of the world cocoa economy in the framework of a new international cocoa agreement".

Coffee

9. The International Coffee Agreement, 1983, was due to expire on 30 September 1989. After two years of negotiations during which producers and consumers failed to agree on a new International Coffee Agreement, the International Coffee Council at its meeting held on 3 July 1989, decided to extend the 1983 Agreement for a period of two years to 30 September 1991, with regulation of exports and imports in suspension, and to suspend as from 4 July 1989 the quotas under that Agreement. The Council decided further to prepare the way for resumption of negotiations for a new coffee agreement.

Copper

10. The United Nations Conference on Copper 1988 held its second part from 20 to 24 February 1989 and established the terms of reference for an autonomous intergovernmental body ("the International Copper Study Group"). The main functions envisaged for the Group are: consultations and exchange of information; improvement of copper statistics; assessment of the market situation and outlook; and supporting activities aimed at developing the market for copper. As of 31 July 1990 the following States, accounting for 28.40 percent of world trade in copper, had accepted the Terms of Reference of the Group: Chile, China, Finland, Greece, Peru, Poland and the USA. The goal set by the Conference for the entry into force is the membership of States accounting for 80 per cent (definitive application of terms of references) and 60 per cent (provisional).

Iron ore

11. The Intergovernmental Group of Experts on Iron Ore held its third session from 16 to 19 October 1989. An extensive exchange of views took place within delegations and among groups regarding the form and content of future work on iron ore within UNCTAD. These consultations led to the adoption of a recommendation reflecting the broad agreement among experts that UNCTAD's work on iron ore should be maintained and that regular meetings ofexperts should be convened, with the participation of industry advisers, to exchange views on the iron ore situation and to review and enhance iron ore statistics.1/

Jute and jute products

12. The United Nations Conference on Jute and Jute Products, 1989, was convened in Geneva from 30 October to 3 November 1989 for the purpose of renegotiating the International Agreement on Jute and Jute Products, 1982. The Conference adopted the International Agreement on Jute and Jute Products, 1989.

13. The main features of the Agreement are much the same as those of the 1982 Agreement, but the objectives have been spelled out in greater detail. A new objective requires that the environmental aspect be given due consideration in the activities of the IJO, particularly by creating awareness of the beneficial effects of use of jute as a natural product.

14. As in the 1982 Agreement, the objectives are to be achieved by means of projects on research and develoment, market promotion and cost reduction. These projects may include human resources development, which was an element not specifically mentioned in the 1982 Agreement. As was the case for the 1982 Agreement, the new Agreement contains no price stabilization measures. it does, however, include the same provision for further consideration of this subject as well as other important issues concerning jute and jute products.

15. The Agreement provides for the continuation of the institutional framework established under the 1982 Agreement. In particular, the International Jute Organization with its headquarters in Dhaka, Bangladesh, will continue in being for the purpose of administering the provisions and supervising the operation of the Agreement. It will continue to function through the International Jute Council, whose main operational activities will be the identification and selection of projects in the fields of research and development, market promotion and cost reduction, as well as arranging for their preparation, implementation and monitoring.

Nickel

16. At a meeting on 23 May 1990, the States having adopted the Terms of Reference of the International Nickel Study Group (INSG), decided to put them into effect amongst themselves in whole as of that date and requested the Secretary-General of UNCTAD to convene the inaugural meeting of the INSG. The members of the Group are: Australia, Canada, Cuba, Finland, France, Germany, Federal Republic, Greece, Indonesia, Japan, Norway and Sweden, which account for over 60 per cent of the world trade in nickel.

17. The inaugural meeting was held in the Hague from 25-28 June 1990. Observers from Italy and the USSR indicated their intention to join the Group by the end of 1990 at the latest. The Group established its headquarters in the Hague and entrusted the Standing Committee, on behalf of the Group, to appoint the Secretary-General, and approve the budget at its next meeting, to be held in the fall of 1990.

Olive oil

18. The 1986 International Agreement on Olive Oil and Table Olives came into full force on 1 December 1988. The present Agreement is due to expire on 30 June 1991 but may be prolonged for not more than two periods of one year each.

19. The Olive Oil Council is closely following developments for bringing the Second Account of the Common Fund for Commodities into operation and intends to take full advantage of the facilities of the Second Account.

Rubber

20. The International Natural Rubber Agreement, 1987 entered into force on 29 December 1989 for an initial period of five years. At its twenty-first session, held in July 1990, the International Natural Rubber Council reviewed the reference price; it noted that the six-month average of the daily market indication price (MIP) as at 9 July 1990 was 182.92 Malaysian/Singapore cents per kilogramme and therefore revised the reference price downward by 5 per cent. The revised reference price will be 207.20 Malaysian/Singapore cents per kilogramme. The Council further agreed to a refund of a final sum of approximately M$11 million to members who so request.

Sugar

21. The International Sugar Agreement (1987) was adopted on 11 September 1987. The present Agreement, which entered into force on 24 March 1988, is due to expire at the end of this year but can be extended by decision of the International Sugar Council for a further two years in all.

22. In 1988, MECAS (the Market Evaluation, Consumption and Statistics Committee) was set up with the objective of improving the flow of information, both short and long-term, and of providing a forum for debate. It is now holding four meetings a year, and produces a wide range of studies, as well as debating national sugar policies, and producing monthly and quarterly market reports and short-term projections.

23. The International Sugar Organization has approched the Common Fund with a view to its designation as an ICB for purposes of sponsoring projects for financing under the Second Account. A number of project proposals have been submitted to the Internationaol Sugar Council.

Tin

24. The United Nations Conference on Tin 1988 held the second part of its session from 19 March to 7 April 1989. The Conference established the terms of reference for an autonomous International Tin Study Group. The functions envisaged for the Group are broadly similar to those of the Copper Study Group. The major difference is that they do not include measures for market development. As of 31 July 1990, the following States, accounting for 28.13 percent of world trade in tin, had accepted the Terms of Reference of the Group: Greece, Indonesia, Malaysia, Nigeria and Thailand. The goal set by the Conference for membership of the group is States accounting for 70 per cent of world trade in tin.

Tropical timber

25. The International Tropical Timber Agreement, 1983 as currently extended expires on 31 December 1992. One further extension of upto two years is possible under the agreement. At its eighth session held in May 1990, the International Tropical Timber Council decided, in its decision 4(VIII) of 23 May 1990, to adopt the ITTO Guideliens for Sustainable Management of Natural Tropical Forests and commended such guidelines as an "international reference standard to members and the international community in general as a major contribution towards the goal of sustainable utilization and conservation of tropical forests and their genetic resources".

Tungsten

26. The Committee on Tungsten held its twenty-first session frcm 4 to 9 December 1989. Improvement of market transparency remained an important part of the Committee's discussions. In its assessment of the current market situation and the short-term outlook of the tungsten market, the Committee examined many factors which had resulted in only limited market improvement for tungsten despite the upturn in demand. These factors included the over abundant supply of tungsten materials, the competition for market share between tungsten concentrates and intermediate products, the uncertainty created by increased protectionism and the movement of stock materials.

27. The Committee agreed that publication of mine capacity statistics would enhance the work on statistics and market transparency and requested the secretariat to prepare a paper containing the different definitions and methodologies used in major tungsten producing countries, and to review existing research and development programmes to promote new applications for tungsten. On the question of the eligibility of the Committee to be designated as an ICB for the Common Fund, the Committee requested the Secretary-General of UNCTAD to approach the Common Fund informally in order to seek its views on this matter.

Wheat

28. The International Wheat Agreement is due to expire on 30 June 1991. During the 113th session of the Wheat Council, held in July 1990, importing members of the Council indicated that most of them favoured extension of the present Agreement by the Council for two more years. Exporting members, while not favouring a decision at this stage, also felt that the Agreement should continue after 1991.

29. The secretariat of the Wheat Council has been requested to keep in close contact with the authorities of the Common Fund for Commodities.

Consultations on commodities not covered by international agreements/arrangements

30. At UNCTAD VII, the Conference, having recognized "the need for a better functioning of commodity markets and the desirability of achieving stable and more predictable conditions in commodity trade, including the avoidance of excessive price fluctuations and the search for long-term solutions to commodity problems",[2/] agreed that "where appropriate and feasible, producer-consumer consultations and co-operation should be enhanced, strengthened or established".[3/] The Conference also agreed "to request the Secretary-General of UNCTAD to convene or to resume, in accordance with the results of comprehensive consultations with producers and consumers, ad hoc review meetings and/or preparatory meeting on individual commodities which are not covered by international commodity agreements/arrangements and which are included in the indicative list of resolution 93(IV)".[4/] The Committee at its thirteenth session endorsed the above decision in Agreed Conclusion 25(XIII) and agreed to examine the results of these consultations at its fourteenth session. Following these consultations, the Secretary-General was requested to prepare an appropriate schedule of meetings for implementation in 1990 as far as possible.

31. This section covers the consultation process up to 31 July 1990 and will be supplemented by an oral report by the secretariat to the Committee on the situation at that time. Altogether 63 consultations were convened. The following is a synopsis of the results of the comprehensive consultations on the individual commodities concerned.

Bananas

32. There were seven consultations with banana producing countries and one with consuming countries. The initial consultations with producers led to the formulation of an agreed position, which called for the convening of the Second Preparatory Meeting on Bananas to consider a draft programm of research and development projects, and to update them as necessary, as well as to explore the possibilities for an international commodity agreement on bananas

without economic provisions. The above position was reaffirmed by producers to the Secretary-General of UNCTAD, following the decisions taken at the Intergovernmental Group on Bananas of FAO in October 1988. These decisions, inter alia, involved unamimous agreement to encourage the Director-General of FAO to approach the Common Fund for Commodities to designate the IGG on Bananas as the eligible International Commodity Body (ICB) for sponsoring and following up projects on bananas which may be financed through the Second Account of the Fund. The Group stressed the urgency of reviewing, revising and updating the list of projects so that they would be ready to submit to the Fund when it becomes operational.

33. At a consultation with banana consuming countries on 15 February 1989 the developed market-economy countries indicated their opposition to the convening of a second preparatory meeting on bananas on the grounds that the existing FAO Intergovernmental Group on Bananas was dealing with all matters relating to research and development and that the highest priority was accorded to transparency. They noted, inter alia, the unanimous decision by the FAO IGG to encourage the Director General of FAO to approach the Common Fund for Commodities when it became operational, requesting the Common Fund to designate the IGG on bananas as the eligible Intergovernmental Commodity Body, for sponsoring and following up projects on bananas. These countries opposed any producer/consumer consultations on bananas.

34. This position was then communicated to banana producing countries on 19 April 1989. At that consultation, the producers requested that the Secretary-General of UNCTAD transmit the following views to the consumers in all regional groups and China:

> (1) Banana producing countries responsible for the bulk of world exports were informed by the UNCTAD secretariat of the positions adopted by consumers, in particular those stated at the meeting held in 15 February 1989, with regard to the proposal by producers as conveyed by the Secretary-General of UNCTAD in his letter of 28 September 1988 to all regional groups and China and the further letter of 10 January 1989 from the Deputy Secretary-General of UNCTAD.
>
> (2) Producers were still of the view that there was a need for a second preparatory meeting on bananas but recognized that, given the position of many consumers, it would not be possible to convene such a meeting at this stage. In consequence, the producers stressed that as decided by the Committee on Commodities in its agreed conclusions during its thirteenth session, work on bananas in UNCTAD should continue. They requested the Secretary-General of UNCTAD, pursuant to paragraph 77 of the Final Act of UNCTAD VII, to hold further consultations at an appropriate time, in the light of developments in other international fora as well as developments in the world banana economy.

35. In October 1989, UPEB countries adopted a resolution requesting the FAO/IGG to assign urgent priority to the R & D projects approved by UPEB in October 1988. Consequently, the FAO/IGG decided in October 1989 to establish a group of experts to prepare project profiles on the basis of available proposals submitted. The FAO technical consultation on the banana projects will take place in November 1990.

Bauxite

36. Eight consultations were held with producing countries, the first three with developing country producers and five with all producers. The main participants were Australia, Brazil, Hungary, India, Indonesia, Jamaica and

Yugoslavia. Two consultations were held with countries which are consumers of bauxite and/or alumina.

37. In parallel with the consultations in UNCTAD among producing countries, discussions on the possible establishment of a producer-consumer forum for bauxite/alumina/aluminium were held within the International Bauxite Association (IBA) which decided to organize a meeting among all bauxite producing countries in order to arrive at a common producer position on this issue. In May 1990 bauxite producing countries met in Kingston (Jamaica) at the invitation of IBA. At that meeting 13 bauxite producing countries (Australia, Brazil, Ghana, Guinea, Guyana, Greece, Hungary, India, Indonesia, Jamaica, Suriname, Venezuela and Yugoslavia) agreed on the need for a permanent forum to promote discussions between producers and consumers on all questions related to the bauxite/alumina/aluminium industry. They adopted a resolution which requested the Secretary-General of UNCTAD to convene an ad hoc review meeting of government experts in accordance with paragraph 77 of the Final Act of UNCTAD VII and to consult with producing and consuming countries in preparation of such a meeting to be held sometime in early 1991. The issues proposed for discussion at the ad hoc review meeting included: exchange of information; market transparency; promotion of consumption; exchange of information on new and available technologies; research and development; human resource development and environment.

38. In the second consultation with consuming countries held on 3 July 1990 it was agreed that an informal producer/consumer consultation should be held with a view to discussing further the issues raised in the resolution adopted by the bauxite producing countries and their request to the Secretary-General of UNCTAD to convene an ad hoc review meeting of government experts early in 1991. To this end, an informal producer/consumer consultation is scheduled to be held on 28 September 1990.

Cotton and cotton yarns

39. There have been six consultations with cotton producing developing countries as well as Turkey and China and one involving all producers. There is no common position on strengthened international producer/consumer co-operation. The existing consumer/producer forum, the International Cotton Advisory Committee (ICAC), performs promotional activities and the International Institute for Cotton (IIC), a producer body, has been engaged in market promotion and research and development activities in the area of processing.

40. Proposals have been made for the ICAC to seek designation as an ICB from the Common Fund. However, the Committee has decided to study the implications and requirements and is discussing organizational procedures for the consideration and sponsorship of projects before taking any formal action.

41. The President of IIC informed the 48th planning meeting of ICAC, held in 1989, that ICC was organizing a meeting of cotton producing countries at ministerial level, sometime during 1990, to inter alia find solutions to the financing of IIC's activities.

42. To date, it has not been possible to arrive at an agreed outcome in the consultation process. A further consultation will be held after the meeting organized by IIC.

Hard fibres and products

43. Seven consultations were convened with hard fibres producing countries (sisal and henequen, abaca and coir). These consultations have not led to a common position. All the major producers and consumers (with the exception of the USSR) are members of the FAO Intergovernmental Group on Hard Fibres.

44. At its meeting in October 1988, the Intergovernmental Group agreed unanimously that it should encourage the Director General of FAO to approach the Common Fund for Commodities requesting the Common Fund to designate the Intergovernmental Group on Hard Fibres as an eligible international commodity body (ICB) for sponsoring and following up projects on hard fibres which may be financed from the Fund. At its meeting held in October 1989, the Intergovernmental Group decided to hold technical consultations on projects for submission to the Common Fund.

45. The next meeting of the FAO/IGG will be held in October 1990. Depending on the outcome of that meeting, a further meeting could be convened with producers to see whether they wish to pursue the question of an internatinonal agreement on hard fibres either on an individual or collective basis.

Manganese

46. In the period 1988-1989 five consultations with producers were convened. Initially only manganese producing/exporting developing countries participated in these meetings but, at the request of these countries, developed producing/exporting countries were also included.

47. The consultations aimed at a broad acceptance of the idea that international co-operation should take the form of a study group type arrangement. There is presently no international forum for discussions between producers and consumers on manganese. In view of the fact that attendance at the consultations varied from meeting to meeting, the participants at the last consultation requested that a note be sent to all producing Governments, setting out the various alternative scenarios of study group arrangements previously discussed or negotiated, in order to facilitate decision on the most suitable arrangement. If this results in an agreed producer position on a study group arrangement, a joint producer/consumer meeting would be organized.

Meat

48. There have been four consultations on meat with the object of seeking the views of producers and consumers as to whether they wish any specific actions to be taken to strengthen producer/consumer co-operation on meat. There is already a GATT Arrangement regarding bovine meat, which has been in force since 1 January 1980. The Arrangement established the International Meat Council, which meets regularly twice a year and provides a forum for exchange of information, market monitoring and consultations on all matters affecting international trade in bovine meat. However, the primary objective - greater liberalization and stability of the bovine meat market by facilitating the progressive dismantling of obstacles and restrictions to trade, including those which compartmentalize this trade - has not been met. The FAO Intergovernmental Group on Meat, established in 1971, has broader participation and terms of reference than the International Meat Council. It touches upon a wide selection of subjects which often involve technical problems in livestock development and marketing, with special regard to the developing countries.

49. The consultations with developing country producers and Australia led to no agreed position on future action. Latin American producers favoured a resumption of consultations once the Common Fund became operational and when it would be known whether an existing international forum would be designated as an International Commodity Body for sponsoring projects for Second Account Funding. At a meeting in March 1989, the Director-General of FAO was requested to approach the Common Fund in this regard.

The consultation with consumers revealed that they saw no need for any specific action on meat now or in the future.

Phosphates

50. By mid-1990, six consultations had taken place on phosphates, all of the consultations being between developing producing countries. The main countries participating in the consultations were Brazil, Jordan, Morocco, Senegal and Tunisia.

51. The consultations have considered the proposal made by Morocco at UNCTAD VI (1983) to hold an "exploratory conference" among producers and consumers to consider possible intergovernmental action on both phosphates and sulphur. The consultations also considered a number of technical issues relating to the production, processing and marketing of phosphates. No agreement has been reached on a basis for discussion with other producing and consuming countries. At the last consultation, in May 1990, it was decided not to hold further consultations among developing producing countries unless warranted by some new element or initiative on the part of the countries concerned.

Tea

52. There have been eleven consultations with the principal tea producing countries. Further discussions will take place after the meeting of the FAO Intergovernmental Group on Tea scheduled for October 1990.

53. During the meeting of the FAO IGG on Tea held in May 1989, tea producers supported the tea importers in proposing that the FAO IGG be designated by the Common Fund as the eligible ICB for sponsoring projects on tea. It set up a sessional informal working group to formulate proposals for generic tea promotion and the IGG agreed that, subject to the availability of funds, work should begin on:

(i) Updating of the ITP/ITC/Tea Councils promotional surveys with the aim of appraising promotional opportunities for tea in selected countries. These should include the in-depth assessment of the market potential of the selected area;

(ii) Formulating generic promotion programmes and strategies for tea in selected promising target countries. These should be prepared in the form of Project Proposals for submission through the selected
International Commodity Body (ICB) to the authorities of the Common Fund for financing;

(iii) Formulation of projects for assistance in the establishment of appropriate Tea Promotion Bodies in those target markets where no such bodies existed, and assistance to such bodies in the formulation and implementation of generic promotional programmes for tea.

Vegetable oils

54. There have been nine consultations with developing country producers and China on vegetable oils, three of which have been held with coconut producers, two with groundnut producers and one with producers of palm oil. The consultations took note of the fact that, at the Fourth Preparatory Meeting on Vegetable Oils in UNCTAD in 1981, it was agreed that the FAO Intergovernmental Group on Oilseeds, Oils and Fats would be an appropriate body for sponsoring research and development programmes on groundnuts and their products and on coconuts and their products, if it proved possible to have this Group designated by the Common Fund as an eligible ICB meeting the criteria set out in Schedule C to the Agreement establishing the Common Fund for Commodities. The Director-General of FAO was encouraged by the FAO Committee on Commodity Problems in 1989 to pursue this matter with the Common Fund.

55. In consultations with coconut producers and the Asian and Pacific Coconut Community, a number of countries have expressed the desire for strengthened institutional arrangements for this group of products, including through an international consumer/producer forum. In this context, coconut producers are considering whether they wish any specific action to be taken to strengthen international producer/consumer co-operation.

56. With regard to consultations with African groundnut producers, a number of countries proposed to enlarge the African Groundnut Council to include consumers, and the Council has presented its candidature as an ICB to the Common Fund.

57. As can be seen from the foregoing description of the situation regarding producer/consumer co-operation on individual commodities, there is a wide diversity of existing bodies, some covering producers, regionally or internationally, and others both covering producers and consumers. It is appropriate that the Committee should, in its review of the situation on individual commodities and taking into account the consultation process initiated by the Conference at UNCTAD VII, draw its conclusions on how to approach, in the most effective manner, the question of strengthening producer/consumer co-operation which the Conference recognized was necessary for the achievement of lasting solutions to deal effectively with short, medium-and long-term problems in the commodities area.

C. Work on developmental and general objectives of commodity policy

1. International co-operation on diversification, processing, marketing and distribution, including transportation

58. Intergovernmental activities in this area are set out by the Conference in the Final Act of UNCTAD VII, paragraphs 82-85. The precise issues to be considered by the Working Party on Diversification, Processing, Marketing and Distribution, including Transportation were established by the Committee on Commodities in agreed conclusion 25 (XIII), paragraph 3.1.

59. The Working Party, at its second session, held from 12-18 September 1989, considered the following issues: (a) market access conditions and other factors and conditions pertinent to the development of viable diversification programmes; (b) the identification of sectors offering opportunities for diversification and increased participation of developing countries in processing, marketing and distribution, including transportation and of the factors that could facilitate diversification of the economies of developing

countries heavily dependent on commodity export earnings as well as possible means for dealing with such factors, based on past and present experiences; (c) technical assistance for the implementation of these programmes as well as for feasibility studies and infrastructural developments and technical co-operation projects and programmes, particularly for human resources development. The results of this session, including the agreed conclusions, are contained in document TD/B/C.1/305 - TD/B/C.1/AC/9, which is before the Committee under item 4 of the provisional agenda.

60. The remaining issues, namely (d) the improvement of information flows to aid investment decisions; and (e) adequate financial resources for diversification, will be considered at the Working Party's third session, to be held from 5-9 November 1990. The outcome of the meeting will be reported to the Committee under item 4 of the provisional agenda by the Chairman of the Working Party.

61. In view of the Second United Nations Conference on the Least Developed Countries to be held in September 1990, the Committee had requested the secretariat to prepare a study on diversification, processing, marketing and distribution, including transportation, with a view to identification of special needs and problems of the least developed countries. This report has been prepared, drawing on the results of work already carried out, and is available as a non-sessional document (TD/B/C.1/312).

2. Market access

62. Intergovernmental decisions relevant to the work under this element are Conference resolutions 93(IV) and 124(V), and paragraph 89 of the Final Act of UNCTAD VII, in which it was agreed that the UNCTAD secretariat should continue, under its existing mandates, to undertake analysis of issues relating to access to markets as they affect commodities. Also of relevance are the decisions of the Conference in resolutions 131(V) and 159(VI) and by the Board in respect of the latter's continuing annual review of protectionism and structural adjustment.

63. Discussions on improvement in access to markets for tropical products, natural resource-based products and agriculture have taken place primarily in the Trade and Development Board's annual review on protectionism and structural adjustment. Negotiations aimed at further liberalization of trade in these areas are being undertaken in the relevant negotiating groups of the Uruguay Round of multilateral trade negotiations. In 1988 and 1989, the secretariat continued to follow closely developments in trade policy in general and in the negotiations and to examine the impact of trade liberalization on commodity trade.

64. As agreed by the Conference in paragraphs 89 and 105(A) of the Final Act of UNCTAD VII, technical assistance in the context of the Uruguay Round is being provided to developing countries, on request under the three UNCTAD/UNDP regional projects and an interregional project with respect to issues relating, inter alia, to tropical products, natural resource-based products and agriculture.

3. Synthetics and substitutes

65. The Committee's work in this area stems from the Final Act of UNCTAD VII, paragraphs 94 to 96, which recognized that the subject of synthetics and substitutes should be dealt with in a broader developmental context. The

Conference agreed that the programmes' actions should be focused towards improving the competitiveness of natural products with respect to synthetics and substitutes. This was endorsed by the Committee at its thirteenth session.

66. However, owing to budgetary constraints, and the low priority given by Governments, the only work that has been done in this area is a study prepared for the Committee on Tungsten entitled "An in-depth analysis of substitution prospects with emphasis on ceramics and cermets."[5/] The study provides an overview of substitution processes which have recently affected the use of tungsten, including developments in ceramics and cermets and their effects on demand for tungsten in the major consuming markets.

4. Expansion of commodity trade

67. This issue is underscored in all decisions of the Conference and the Committee, as well as in the latter's terms of reference. The Committee at its last session agreed to analyze the factors affecting the expansion of commodity trade, devoting its attention, inter alia, to the identification of further possibilities for strengthening co-operation on individual commodity markets aimed at stimulating the consumption of these commodities and expansion of commodity trade. In the light of the low priority assigned to this element, no specific research has been undertaken on this issue. Work of relevance to this issue is contained in document TD/B/C.1/309, which describes the changing structures of world trade and the long term prospects. In addition, work related to this issue by the secretariat, in co-operation with the International Cocoa Organization and the International Coffee Organization, is described in chapter II.

Chapter II

CONSULTATIONS AND CO-OPERATION WITH INTERNATIONAL ORGANIZATIONS

68. The secretariat has intensified its consultations and co-operation with other international organizations. It is recalled that the Committee is required under its terms of reference to co-ordinate the activities of all bodies involved in the commodity field including the appropriate organs of FAO as well as of autonomous commodity bodies, study groups and other commodity groups and any commodity activities with the GATT.

A. United nations bodies

1. Administrative Committee on Co-ordination (ACC)

69. In its decision 1988/6, adopted in April 1988, the ACC endorsed the proposal of the Secretary-General of UNCTAD to convene a meeting of experts of the organizations of the United Nations system to discuss the situation and prospects with regard to commodities and related policy aspects. Pursuant to that decision, an inter-agency expert meeting on Commodities was held in Geneva from 1 to 3 May 1989. The meeting was attended by experts from DIESA, UNCTAD, ESCAP, UNICEF, WIDER, ILO, FAO, the World Bank, IMF, GATT and ITC.

70. The aim of the meeting was for experts from concerned agencies in the United Nations system to exchange and harmonize views on the medium and long-term outlook for commodities in order to provide a common basis for policy formulation in those agencies active in the commodity sector.

2. ITC/UNCTAD/GATT

71. Under the project "Import Management and Policies for Food Commodities", for which UNCTAD is the executing agency, the establishment of a Price Information System for Rice was sub-contracted to ITC. The purpose of the Service will be to collect and disseminate information on the prices for rice to interested importer developing countries. Close contacts are maintained with the ITC in its promotional activities in the area of commodities.

3. Regional commissions

72. Consultations are held with the regional commissions on their respective work and research activities. During the reporting period, extensive consultation and co-operation was carried out with ECLAC and ESCAP, particularly with regard to the programme of research on the role of the mineral sector in the development process. Under this programme a seminar was organized in each of the regions with the cooperation of the respective regional commissions. These seminars addressed a number of topics concerning the developmental role of the mineral sector at the national and regional level; participants included experts and policy-makers from the region as well as representatives of regional and international institutions with an interest in the mineral sector. In addition, two major studies were undertaken - on tin and aluminium, in collaboration with ECLAC, as well as a comparative study between the two industries. These studies were presented to an expert group meeting on the aluminium and tin industries in Latin America and the Caribbean, held in Santiago from 26-27 October 1989. This meeting was convened to examine the implications of technological change for aluminium and tin and to identify possibilities for Latin American and Caribbean co-operation.

4. UNDP

73. Following the proposal by Japan at UNCTAD VII for the setting up of a round table mechanism to promote the processing of commodities, especially in commodity export dependent developing countries, a UNDP preparatory assistance project was drawn up and implemented with the objective of exploring the need for and modalities of a round table mechanism combining the expertise of competent international organizations and independent experts to advise developing countries in the area of the processing of commodities, especially for export. A preliminary draft project document has been prepared on the basis of consultations with developing countries and organizations working in this area. This draft is being considered by the concerned international and regional agencies (UNDP, FAO, UNIDO, World Bank, the IFC and the regional development banks). A revised draft will be prepared taking into account their comments before discussions take place with potential donor Governments and subsequently a meeting of all interested parties will be convened to finalize the project document.

74. Another UNDP-financed assistance project on policies for improving the commercialization of commodities of developing countries is in its final stages. This has involved the assessment of developing countries' needs in this area and the avenues for best fulfilling these needs. Particular emphasis has been placed by countries on the usefulness of exchanges of experience on policy formulation and implementation and the need for assistance in creating and strengthening collaboration between government and the private sector in the formulation, direction and implementation of export policies for commodities.

B. Specialized agencies

1. FAO

75. Regular consultations are held between the FAO and UNCTAD secretariats on their respective work in the area of commodities. Such consultations in particular focus on work on individual commodities in the two organizations with a view to ensure complementarity of efforts. To this end, an inter-secretariat consultation meeting was held on 6 July 1990. In addition, the FAO secretariat specifically prepared, at the request of the United Nations Secretary-General's Expert Group on African Commodity Problems, several papers for its consideration.

2. International Monetary Fund (IMF)/World Bank

76. The IMF made direct contributions to the work on compensatory financing of export earnings shortfalls. At the request of the Intergovernmental Group of Experts on Compensatory Financing, the staff of the IMF prepared a report entitled "The IMF Compensatory and Contingency Financing Facility (CCFF)", which was submitted to the Expert Group at its resumed second session held in April 1989. The staff of the IMF participated actively in discussions at the sixteenth special session of the Board in April 1990. The World Bank and the IFC have provided the secretariat with detailed information on financial contributions made to commodity-related export diversification programmes and projects for the secretariat study on "Financial resources for diversification projects and programmes" (TD/B/C.1/AC/12). Similar contributions were provided by the Asian Development Bank and the Inter-American Development Bank. Both the World Bank and the IMF provided background papers and advice to the Secretary-General's Expert Group on African Commodity Problems.

C. Autonomous commodity councils and study groups

77. Close contact at the secretariat level is maintained with commodity councils and study groups, in particular concerning the operation of commodity agreements negotiated under the auspices of UNCTAD. Advice and assistance is provided by the secretariat, on request , on the background to the negotiation of agreements and on their legal interpretation. The secretariat also discusses with the staff of the commodity councils the market situation and other economic issues with regard to the commodity in question, as well as arrangements for the renegotiation or extension of the commodity agreements.

1. International Cocoa Council

78. Pursuant to the Final Act of UNCTAD VII chapter 2, B para. 105 (25)-(28) and as part of its contribution to UN-PAAERD, which specifically called for expanded technical assistance and promotion of trade between Africa and the socialist countries of Eastern Europe, the Secretariat organized a workshop, in collaboration with the Ministry of External Economic Relations of the USSR and the All-Union Academy for Foreign Trade, in collaboration with ICCO, on possibilities for the expansion of trade in cocoa between cocoa producing countries in Africa and Eastern European countries. The Workshop was held in Moscow from 20-29 November 1989.

79. More specifically, the objectives of the Workshop were: (a) to consider the implication of the changes in the trading environment in Eastern Europe and in this context opportunities for increased trade and co-operation involving cocoa; (b) to explore specific ways and means to expand cocoa consumption and to increase cocoa trade between Eastern Europe and Africa through traditional and new forms of trade and economic cooperation; and (c) to identify areas for possible concrete business deals.

80. The Workshop led to a commitment by countries of Eastern Europe to double their cocoa imports during the current theee years. The possibilities of joint ventures between African and Eastern European countries were explored, not only for warehousing but for the processing of cocoa and the manufacture of final products. It was agreed to continue bilateral consultations in such areas as (i) compensation deals, countertrading transactions, debt/cocoa swaps and other arrangements devoid of hard currency element; and (ii) joint ventures.

81. A major study on the "Prospects for the world cocoa market until the year 2005" has been prepared jointly with the Secretariat of the ICCO and is contained in document UNCTAD/COM 5. The findings of this study will be presented to the fortieth session of the International Cocoa Council in September 1990.

2. International Coffee Organization (ICO)

82. A similar workshop in Moscow on coffee is being organised for October 1990. Unlike the cocoa workshop, this one will involve experts from producers in all regions. The Secretariat of the ICO has actively participated in the preparation for this workshop.

3. International Jute Organization (IJO)

83. A background note "Historical development, status and operation of the International Agreement on Jute and Jute products, 1982", was prepared by the UNCTAD secretariat in consultation with the IJO with a view to providing

information to participants in the Conference on the activities carried out under that Agreement and on some issues relevant to the renegotiation of a successor agreement.

4. International Nickel Study Group (INSG)

84. The UNCTAD secretariat provided substantive inputs and serviced the inaugural meeting of the International Nickel Study Group, which was held in the Hague from 25-28 June 1990.

5. Common Fund

85. The secretariat has maintained close contacts and provided assistance to the secretariat of the Common Fund for Commodities. Following the entry into force of the Agreement on 19 June 1989, the Secretary-General of UNCTAD convened and serviced the first annual meeting of the Governing Council of the Common Fund. At this meeting, the Council, inter alia, elected 26 Executive Directors and an equal number of alternatives to the Executive Board; decided that the Fund's headquarters would be in Amsterdam; appointed Mr. Budi Hartantyo as Managing Director of the Fund and approved an interim budget. Pursuant to the invitation of the Governing Council, the Secretary-General of UNCTAD made interim arrangements for handling the resources of the Fund. In accordance with article 22 of the Agreement establishing the Common Fund for Commodities, the Secretary-General of UNCTAD is invited to attend the meetings of the Executive Board as an observer. Substantive and servicing support has been provided for the meetings of the Executive Board and the second annual meeting of the Governing Council. At the latter meeting the Council adopted rules and regulations for the operation of the Fund and its Second Account, which will be re-examined by the Council at its fourth annual meeting to take into account experience gained in their operations. It also approved the budgets for the next eighteen months and entrusted the Board with establishing the Consultative Committee and its rules and regulations, subject to their amendment for final adoption by the Council at its next session.

Chapter III

FUTURE WORK

86. The legislative authority for future work in the commodities area derives from the Committee's terms of reference, Chapter II, B, Commodities, of the Final Act of UNCTAD VII and the draft UNCTAD section of the Untied Nations medium-term plan for the period 1992-1997. The latter states, in respect of commodities, that "taking into account the central co-ordinating role of UNCTAD in the field of commodities, the objectives of the subprogramme will be:

(a) To achieve a better functioning of international commodity markets and stable and more predictable conditions in commodity trade, including the avoidance of excessive price fluctuations and the search for long-term solutions to commodity problems;

(b) To enhance, strengthen or establish producer-consumer consultations and co-operation, where appropriate and feasible;

(c) To improve the operation and functioning of existing commodity agreements and, where appropriate, to negotiate new international commodity agreements or arrangements;

(d) To intensify international co-operation for the horizontal and vertical diversification of the economies of developing countries, as well as for increasing their participation in the processing, marketing, transportation and distribution of their commodities;

(e) To enhance international assistance directed to viable diversification programmes and, in that respect, to facilitate an adequate expansion of bilateral, multilateral, and private resource assistance, including private investment;

(f) To complement such financial assistance with technical co-operation for the implementation of diversification programmes;

(g) To improve information flows to aid investment decisions;

(h) To improve export earnings of developing countries through their increased participation in the diversification, processing, marketing, distribution and transportation of commodities;

(i) To improve and sustain the real income of developing countries through increased export earnings;

(j) To seek to liberalize trade, including improved market access in primary products and the processed products thereof, bearing in mind the needs and interests of developing countries;

(k) To improve the competitiveness of, and to encourage research and development on the problems of, natural products competing with snythetics and substitutes;

(l) To improve market structures in the field of raw materials and commodities of export interest to developing countries;

(m) To promote international food trade policies that increase food production and consumption in developing countries, promote an adequate supply of food and strengthen world food security".

87. The fourteenth session of the Committee will provide Governments with an opportunity to assess the implementation of the policies and measures agreed upon in the Final Act of UNCTAD VII and also to decide on the areas and issues to which priority should be accorded in future work. The outcome of the Committee's decisions under the two other substantive items of the provisional agenda will also have a bearing on the directions of future work.

1. Individual commodities

88. Under its terms of reference, the Committee is required to prepare reviews of the market situation of various primary commodities, including

projections of supply and demand in the commodities concerned. For commodities covered by international commodity agreements/arrangements future work of the Committee should be directed, as determined by the Conference at its seventh session, towards efforts to improve the operation and functioning of such agreements/arrangements. For commodities not covered by international agreements/arrangements the Committee will need to review the market situation and, in this regard, take into account the outcome of the comprehensive consultations between producers and consumers described in chapter I above.

89. The Committee may also wish to encourage States members to take the necessary action to secure the entry into force of the terms of reference of the international study groups on copper and tin.

90. One area to which little attention has been paid in the past is that of basic industrial minerals and fuels, which are likely to be of growing importance in world trade and which are key commodities for developing countries. It would appear, therefore, that the Committee should take this into account in determining its future work.

91. During the next two years a number of meetings on individual commodities will be convened under the auspices of UNCTAD. These involve meetings with countries which have accepted the terms of reference for study groups already negotiated under UNCTAD auspices as well as Conferences convened for the renegotiation of existing commodity agreements such as cocoa, sugar, olive oil and tropical timber. In addition, there will be the annual meetings on iron ore and tungsten.

2. International co-operation on diversification, processing, marketing and distribution including transportation (DPMD)

92. It is noted that the Conference, in the Final Act of UNCTAD VII, agreed that UNCTAD should assist in "diversification, processing, marketing and distribution programmes, including the improvement of information flows to aid investment decisions, and technical co-operation projects and programmes, particularly for human resources development".

93. The Working Party on DPMD at its second session made several suggestions regarding future work in this area, including on topics for further research and analysis on which proposals have been made in document TD/B/C.1/310, and on the collection, synthesis and dissemination of information on technical assistance needs and availabilities by the UNCTAD secretariat. These and any further suggestions arising from the work at the third session of the Working Party will be taken up under agenda item 4 of the provisional agenda.

3. Compensatory financing

94. The Trade and Development Board by its decision 379(S-XVI) decided that "the problems of commodity export earning shortfalls of developing countries arising from market instability, as well as the question of compensatory financing of export earning shortfall, should be kept under review in UNCTAD as part of the ongoing work of the Committee on Commodities, taking into account the various views expressed at the Board's sixteenth special session and in the conclusions and recommendations of the Intergovernmental Group of Experts."

95. The Committee could undertake this review either in the context of its review of the commodity situation and outlook or under a specific item dealing with the problem of commodity export earnings shortfalls.

4. Expansion of commodity trade

96. Given the importance of the policy changes in Eastern Europe and their implications for commodity trade, as well as the continuing growth in South-South commodity trade, the Committee might wish to pay particular attention to these aspects in its future work despite, the low priority accorded in the past by Governments to the item of expansion of commodity trade.

5. Commodity situation and outlook

97. Under the first substantive item of its agenda, the Committee traditionally reviews, the commodity situation and outlook. In its agreed conclusion 25 (XIII) the Committee set out a large number of issues, some of which have been covered in detail in document TD/B/C.1/309. Certain issues, notably the impact of technological advances and government policies on supply and consumption of commodities, changes in marketing and pricing systems and practices would seem to require further study, as well as additional issues of increasing importance to the commodity sector such as health and environmental considerations in terms of both their positive and negative effects. In the latter context, the Committee will need to take account of the Trade and Development Board's discussions on sustainable development, at its thirty-seventh session (first part) to be held from 1-12 October 1990, pursuant to its decision 370 (XXXV) which requested the Secretary-General of UNCTAD "to make an analysis on the inter-face between sustainable development and the main lines of UNCTAD activities within its mandate". The Committee may also wish to examine the question of the illicit production, trafficing and consumption of narcotic drugs.

6. Consultation and co-operation with international organizations

98. Close co-operation will continue to be maintained with the international organizations referred to in chapter II above. Specifically, in this context, in its work on enhancing the role of the non-fuel mineral sector in the development process, and taking into account inter alia concerns about the natural environment, a regional seminar will be organized in collaboration with the Economic Commission for Africa in 1991. This will be followed by an interregional seminar involving regional commissions, and inter alia, the World Bank and regional development banks. Studies will also be undertaken, in collaboration with ECA and ECLAC, on the iron ore and steel industries in those regions.

FOOTNOTES

1/ The recommendation was submitted to the Board at its Thirty-sixth session and was approved in its decision 382(XXXVI).

2/ Final Act UNCTAD VII, para. 74.

3/ ibid, para. 75.

4/ ibid, para. 77.

5/ TD/B/C.1/Tungsten/81.